



**Steve Tshwete Local Municipality
Annual Financial Statements
for the year ended June 30, 2017
Published August 31, 2017**

Audited
By
2017 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

General Information

Legal form of entity	Local Municipality
Municipal demarcation code	MP313
Grading of local authority	Grade 4
Capacity of local authority	High capacity
Nature of business and principal activities	<p>The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community:</p> <p>General services - All types of services rendered by the municipality, excluding the supply of housing to the community.</p> <p>Waste Management Services - The collection, disposal and recycling of waste.</p> <p>Electricity Services - Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality.</p> <p>Waste water management - Collection and purification of waste water.</p> <p>Water Services - Supply and purifying of water.</p>
The following is included in the scope of operation	From 6 August 2016
Executive mayor	Cllr MAS Masina
Speaker	Cllr AM Mabena
Council whip	Cllr SD Nkadimeng

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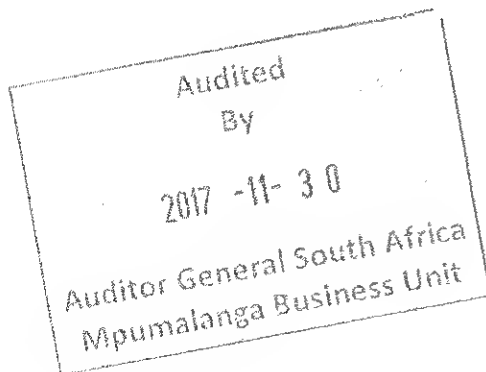
General Information

Mayoral committee

Cllr MI Kgalema
Cllr DJ Motsepe
Cllr SM Malepeng
Cllr MTE Mnguni
Cllr J Matshiane
Cllr JM Mitchell

Councillors

Cllr LK Mahlangu
Cllr RG Mamogale
Cllr AB Malumo
Cllr PM Masilela
Cllr M Masina
Cllr M Mbatwe
Cllr NC Mkhuma
Cllr TP Mnisi
Cllr TS Motloung
Cllr ET Motsepe
Cllr MC Mphogo
Cllr MJ Sekgwele
Cllr DJ Skosana
Cllr J Skosana
Cllr AM Mahlangu
Cllr MN Mathibela
Cllr M Mathibela
Cllr TN Morufane
Cllr TP Motau
Cllr DL Paul
Cllr MM Skhosana
Cllr MR Mnguni
Cllr R Vilakazi
Cllr RM Xaba
Cllr LNJ Zondo
Cllr EM Bruiners
Cllr E Du Toit
Cllr J Dyason
Cllr AS Grobler
Cllr P Mobango
Cllr SM Mogola
Cllr HF Niemann
Cllr KJ Phasha
Cllr JP Pretorius
Cllr Cllr GHE Romijn
Cllr SJ Roos
Cllr P Sithole
Cllr HG De Klerk
Cllr A Struwig
Cllr DA Stuurman
Cllr TN Van Zyl
Cllr S Wait
Cllr JP Duvenage
Cllr KPJ Uys
Cllr P Mailola
Cllr A Mangcotywa
Cllr M Hadebe
Cllr LC Masemola
Cllr CM Mosoma
Cllr JN Mthombeni
Cllr E Sebesho



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

General Information

Executive Mayor
Speaker
Council Whip

Mayoral committee

Councillors

From Prior 6 August 2016

Cllr MAS Masina
Cllr RM Xaba
Cllr BP Ndala

Cllr NJ Mahlangu
Cllr EF Mathebula
Cllr DJ Motsepe
Cllr SD Nkadimeng
Cllr EP Nkosi

Cllr H Piloda
Cllr E Du Toit
Cllr J Dyason
Cllr AS Grobler
Cllr PM Hadebe
Cllr EA Jele
Cllr DS Khanyile
Cllr TR Langeveld
Cllr DM Longman
Cllr SA Lukhele

Cllr NJ Mahlangu
Cllr TB Mahlangu
Cllr O Malinga
Cllr LI Manzini
Cllr PJ Masilela
Cllr MA Masina
Cllr EF Mathebula
Cllr M Mathibela

Cllr J Matshiane
Cllr M Mbatwe
Cllr LE Mkhuma
Cllr NJ Mlambo
Cllr MTE Mnguni
Cllr MR Mnguni
Cllr SM Mnguni
Cllr P Mobango
Cllr SM Mogola
Cllr KN Monareng
Cllr TM Morufane
Cllr MS Motebu
Cllr DJ Motsepe
Cllr GZ Msimango
Cllr ZD Mshweni
Cllr BP Ndala
Cllr HF Niemann
Cllr SD Nkadimeng

Cllr EP Nkosi
Cllr ME Nyambi
Cllr H Pilodia
Cllr JP Pretorius

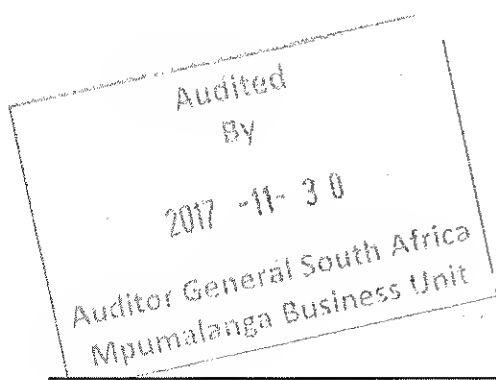


Steve Tshwete Local Municipality

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General Information

	Cllr GHE Romjin Cllr SJ Roos Cllr MJ Sekgwele Cllr MJ Selala Cllr MT Selala Cllr PM Shongwe Cllr PN Sithole Cllr DJ Skhosana Cllr BC Skosana Cllr J Skosana Cllr A Struwig Cllr PP Tau Cllr PI Thwala Cllr KPJ Uys Cllr TN Van Zyl Cllr S Wait Cllr RM Xaba Cllr SS Zitha
Accounting Officer	SM Mnguni (Acting)
Chief Finance Officer (CFO)	E Wassermann
Registered office	Civic Centre Wanderers Avenue Middelburg 1050
Postal address	P.O. Box 14 Middelburg 1050
Bankers	ABSA Bank Nelspruit
Auditors	Auditor-General of South Africa Nelspruit
Attorneys	Van Deventer and Campher Inc. Maphanga and Essa Inc. Mmela Mtsweni Attorneys Mohube Setsoalo Mabusela Inc. Nkgadima MS Attorneys Johan Alberts Attorneys All figures are rounded off to the nearest rand (R)



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

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The reports and statements set out below comprise the annual financial statements presented to the council:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
SALGA	South African Local Government Association

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Annual Financial Statements for the year ended June 30, 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards. In ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

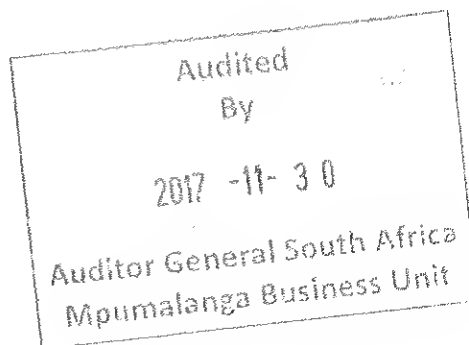
The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for the audit and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditors and their report is presented on page 8.

The annual financial statements set out on pages 8 to 107, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2017 and were signed on its behalf by:

Accounting Officer
SM Mnguni (Acting)
Middelburg

Thursday, August 31, 2017



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Audit Committee Report

We are pleased to present our report for the financial year ended June 30, 2017.

Audit Committee members and attendance

The Audit Committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 6 meetings were held.

Name of member	Number of meetings attended
M Mmaphele (Chairperson)	5
V Chuene	5
L Langalebalela	6
L Thubakgale	5
M Mathabathe	6

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 186(2)(a) of the MFMA.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of Internal Control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King IV Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the audit report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in-year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of Annual Financial Statements

The Audit Committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the municipality's compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The Audit Committee concurs with and accepts the Auditor-General of South Africa's report on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal Audit and Risk Management

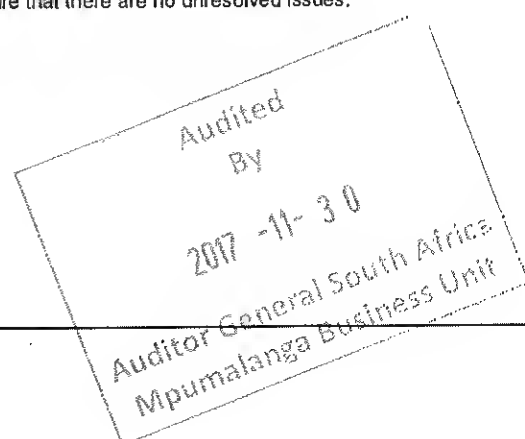
The Audit Committee is satisfied that the internal audit and the risk management function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

The Audit Committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: _____



Report of the auditor-general to the Mpumalanga Provincial Legislature and the council on the Steve Tshwete Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Steve Tshwete Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Steve Tshwete Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

7. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material underspending of the budget

8. As disclosed in the statement of comparison of budget and actual amounts, the municipality materially underspent the budget by R73 068 767.

Other matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2017:

Programmes	Pages in the annual performance report
Key performance area 5: infrastructure development and service delivery	x – x

18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following key performance area:
- Infrastructure development and service delivery

Other matter

20. I draw attention to the matter below.

Adjustment of material misstatements

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of infrastructure development and service delivery. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

22. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
23. The material findings on compliance with specific matters in key legislation are as follows:

Procurement and contract management

24. Bid documentation for the procurement of commodities designated for local content and production did not stipulate the minimum threshold for local production and content, as required by preferential procurement regulation 9(1).
25. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of supply chain management (SCM) regulation 17(a) and (c).
26. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, contrary to SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Other information

27. The municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected key performance areas presented in the annual performance report that have been specifically reported on in the auditor's report.
28. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

29. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance areas presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact.
30. I have read the other information included in the draft annual report and have nothing to report in this regard.
31. I have not yet received the final annual report containing the other information. When I do receive this information, and if I conclude that it contains a material misstatement, I am required to communicate the matter to those charged with governance and to request the other information to be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

Internal control deficiencies

32. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Leadership

33. The municipal council did not have effective mechanisms to monitor compliance with laws and regulations throughout the period.

Financial and performance management

34. Management did not ensure that key legislation on procurement and contract management was fully complied with.

Auditor-General
Mbombela

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause the municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Position as at June 30, 2017

	Note(s)	2017 R	2016 Restated* R
Assets			
Current Assets			
Inventories	3	168,799,807	169,675,280
Long term receivables	4	37,657	41,688
Operating lease asset	5	262,158	2,292,990
Other receivables from exchange transactions	6	28,835,511	26,093,814
Receivables from non-exchange transactions	7	5,709,384	11,125,056
VAT receivable	8	6,441,569	6,070,158
Receivables from exchange transactions	9	78,207,626	73,504,781
Investments	10	482,000,000	485,000,000
Cash and cash equivalents	11	83,901,579	80,463,242
		854,195,291	854,267,009
Non-Current Assets			
Investment property	12	26,006,538	25,950,913
Property, plant and equipment	13	6,208,806,200	6,047,795,005
Intangible assets	14	7,356,612	1,284,736
Long term receivables	4	-	21,239
		6,242,169,350	6,075,051,893
Total Assets		7,096,364,641	6,929,318,902
Liabilities			
Current Liabilities			
Long term liabilities	15	11,442,543	10,334,263
Finance lease obligation	16	1,056,937	106,805
Payables from exchange transactions	17	168,366,735	158,406,765
Payables from non-exchange transactions	18	2,101,406	6,796,510
Consumer deposits	19	89,257,757	81,886,507
Employee benefit obligation	20	3,224,000	2,500,860
Unspent conditional grants and receipts	21	2,026,623	5,344,905
Provisions	22	1,518,821	1,366,271
Long service award	23	1,651,000	1,830,099
		280,645,822	268,572,985
Non-Current Liabilities			
Long term liabilities	15	55,323,355	66,765,898
Finance lease obligation	16	4,571,138	-
Employee benefit obligation	20	87,625,060	81,109,921
Provisions	22	25,000,895	18,767,012
Long service award	23	16,943,629	15,859,434
		189,464,077	182,502,265
Total Liabilities		470,109,899	451,075,260
Net Assets		6,626,254,742	6,478,243,652
Accumulated surplus		6,626,254,742	6,478,243,652

* See Note 47

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Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Performance

	Note(s)	2017 R	2016 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	25	723,831,163	680,081,700
Rental of facilities and equipment		15,239,388	17,065,885
Interest received - trading	26	3,425,188	2,860,040
Income from agency services		20,345,495	17,659,784
Licences and permits		8,799,652	8,758,199
Other income	27	28,254,020	33,489,449
Investment revenue	28	47,867,886	40,559,585
Total revenue from exchange transactions		847,762,792	800,474,642
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	29	309,753,630	291,042,367
Transfer revenue			
Government grants and subsidies	30	190,727,740	182,444,853
Public contributions and donations	31	82,098,786	61,135,026
Fines, penalties and forfeits		18,316,692	17,015,677
Total revenue from non-exchange transactions		600,896,848	551,637,923
Total revenue		1,448,659,640	1,352,112,565
Expenditure			
Employee related costs	32	(417,546,634)	(363,305,143)
Remuneration of councillors	33	(19,588,849)	(19,089,603)
Depreciation and amortisation	34	(150,879,779)	(147,734,351)
Impairment loss/ Reversal of impairments	35	(7,031,746)	(12,978,003)
Finance costs	36	(18,639,974)	(9,336,534)
Rentals		(573,450)	(1,021,495)
Debt impairment	37	(29,180,141)	(8,293,281)
Collection costs		(1,704,814)	(342,658)
Repairs and maintenance		(73,356,543)	(65,327,054)
Bulk purchases	38	(410,753,825)	(379,618,096)
Contracted services	39	(42,654,882)	(38,586,791)
Grants and subsidies paid	40	(5,983,573)	(5,201,820)
Contribution to provisions		(3,017,947)	(17,673,202)
General expenses	41	(122,423,378)	(122,357,172)
Total expenditure		(1,303,316,336)	(1,190,865,203)
Operating surplus		145,344,305	161,247,362
(Loss) gain on disposal of assets and liabilities		(903,912)	289,806
Actuarial gains/(losses)	20	3,576,693	-
		2,672,781	289,806
Surplus for the year		148,017,086	161,537,168

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* See Note 47

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	6,301,595,045	6,301,595,045
Adjustments		
Correction of errors - note 47	15,111,439	15,111,439
Balance at July 01, 2015 as restated*	6,316,706,484	6,316,706,484
Changes in net assets		
Surplus for the year	161,537,168	161,537,168
Total changes	161,537,168	161,537,168
Opening balance as previously reported	6,462,161,040	6,462,161,040
Adjustments		
Correction of errors	16,076,616	16,076,616
Restated* Balance at July 01, 2016 as restated*	6,478,237,656	6,478,237,656
Changes in net assets		
Surplus for the year	148,017,086	148,017,086
Total changes	148,017,086	148,017,086
Balance at June 30, 2017	6,626,254,742	6,626,254,742

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* See Note 47

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Cash Flow Statement

	Note(s)	2017 R	2016 Restated* R
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,100,580,868	1,070,783,355
Grants		182,724,355	190,262,204
Interest income		51,293,074	43,419,625
		<u>1,334,598,297</u>	<u>1,304,465,184</u>
Payments			
Employee costs		(438,441,522)	(370,155,835)
Suppliers		(629,738,982)	(639,620,275)
Finance costs		(7,617,271)	(8,391,097)
Grants paid		(5,963,573)	(5,201,820)
		<u>(1,081,761,348)</u>	<u>(1,023,369,027)</u>
Net cash flows from operating activities	43	<u>252,836,949</u>	<u>281,096,157</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(244,030,381)	(215,308,815)
Disposal of property, plant and equipment	13	2,963,595	2,561,772
Purchase of investment property	12	(55,625)	-
Purchase of other intangible assets	14	(6,488,478)	-
Cash receipts from the repayment of long term receivables		25,270	95,385
Cash payments to acquire investments		-	(75,000,000)
Cash receipts from sale of investments		3,000,000	-
Net cash flows from investing activities		<u>(244,585,619)</u>	<u>(287,651,458)</u>
Cash flows from financing activities			
Repayment of long term liabilities		(10,334,263)	(11,737,369)
Finance lease payments/receipts		5,521,270	(179,194)
Net cash flows from financing activities		<u>(4,812,993)</u>	<u>(11,916,563)</u>
Net increase/(decrease) in cash and cash equivalents		3,438,337	(18,471,864)
Cash and cash equivalents at the beginning of the year		80,463,242	98,935,106
Cash and cash equivalents at the end of the year	11	<u>83,901,579</u>	<u>80,463,242</u>

* See Note 47

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Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	773,395,343	(44,129,495)	729,266,848	723,831,163	(5,434,685)	
Rental of facilities and equipment	17,488,224	42,814	17,531,038	15,239,388	(2,291,650)	Note 56
Interest received (trading)	2,314,533	720,300	3,034,833	3,425,188	390,355	Note 56
Income from agency services	15,909,100	400,000	16,309,100	20,345,495	4,036,395	
Licences and permits	9,275,565	(38,015)	9,237,550	8,799,652	(437,898)	
Other income	76,550,393	(4,658,337)	71,892,056	28,254,020	(43,638,036)	Note 56
Interest received - Investment	24,981,300	6,700,000	31,681,300	47,867,886	16,186,686	Note 56
Total revenue from exchange transactions	919,914,458	(40,962,733)	878,951,725	847,762,792	(31,188,933)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	304,861,283	2,370,610	307,231,893	309,753,630	2,521,737	
Transfer revenue						
Government grants & subsidies	197,244,905	3,651,767	200,896,672	190,727,740	(10,168,932)	
Public contributions and donations	20,033,000	(332,875)	19,700,125	82,098,786	62,398,661	
Fines, Penalties and Forfeits	4,695,023	6,928,770	11,623,793	18,316,692	6,692,899	Note 56
Total revenue from non-exchange transactions	526,834,211	12,618,272	539,452,483	600,896,848	61,444,365	
Total revenue	1,446,748,669	(28,344,461)	1,418,404,208	1,448,659,640	30,255,432	
Expenditure						
Employee related costs	(412,117,366)	(6,568,785)	(418,686,151)	(417,546,634)	1,139,517	
Remuneration of councillors	(21,075,838)	404,500	(20,671,338)	(19,588,849)	1,082,489	
Depreciation and amortisation	(154,696,859)	-	(154,696,859)	(150,879,779)	3,817,080	
Impairment loss/ Reversal of impairments	-	-	-	(7,031,746)	(7,031,746)	
Finance costs	(35,746,556)	15,891,928	(19,854,628)	(18,639,974)	1,214,654	Note 56
Lease rentals on operating lease	-	-	-	(573,450)	(573,450)	
Debt impairment	(9,973,836)	(5,500,000)	(15,473,836)	(29,180,141)	(13,706,305)	Note 56
Collection costs	-	-	-	(1,704,614)	(1,704,614)	
Repairs and maintenance	-	-	-	(73,356,543)	(73,356,543)	
Bulk purchases	(422,709,506)	3,268,320	(419,441,186)	(410,753,825)	8,687,361	
Contracted services	(46,517,637)	(2,033,489)	(48,551,126)	(42,654,882)	5,896,244	
Grants and subsidies	(1,760,000)	(4,283,817)	(6,043,817)	(5,963,573)	80,244	
Contribution to provisions	-	-	-	(3,017,947)	(3,017,947)	
General expenses	(299,558,513)	26,593,352	(272,965,161)	(122,423,378)	160,541,783	Note 56
Total expenditure	(1,404,156,111)	27,772,009	(1,376,384,102)	(1,303,315,335)	73,068,767	
Operating surplus	42,692,558	(572,452)	42,020,106	145,344,305	103,324,199	
Loss on disposal of assets and liabilities	145,000	(42,738)	102,262	(903,912)	(1,006,174)	

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	
Actuarial gains/losses	-	-	-	3,576,693	3,576,693	
	145,000	(42,738)	102,262	2,672,781	2,570,519	
Surplus before taxation	42,737,558	(615,190)	42,122,368	148,017,086	105,894,718	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	42,737,558	(615,190)	42,122,368	148,017,086	105,894,718	

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Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Position

Assets

Current Assets

Inventories	49,601,406	-	49,601,406	168,799,807	119,198,401
Long term receivables	-	-	-	37,657	37,657
Operating lease asset	-	-	-	262,158	262,158
Other receivables from exchange transactions	21,510,569	-	21,510,569	28,835,511	7,324,942
Receivables from non-exchange transactions	-	-	-	5,709,384	5,709,384
VAT receivable	-	-	-	6,441,569	6,441,569
Trade receivables from exchange transactions	65,352,007	-	65,352,007	78,207,626	12,855,619
Investments	624,000,000	(126,000,000)	498,000,000	482,000,000	(16,000,000)
Cash and cash equivalents	61,227,034	9,953,407	71,180,441	83,901,579	12,721,138
	821,691,016	(116,046,593)	705,644,423	854,195,291	148,660,868

Non-Current Assets

Investment property	24,937,113	-	24,937,113	26,006,538	1,069,425
Property, plant and equipment	6,242,604,767	51,644,325	6,294,249,092	6,208,806,200	(85,442,892)
Intangible assets	3,211,672	200,000	3,411,672	7,356,612	3,944,940
	6,270,753,552	51,844,325	6,322,597,877	6,242,169,350	(80,428,527)

Total Assets

	7,092,444,568	(64,202,268)	7,028,242,300	7,096,364,641	68,122,341
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Liabilities

Current Liabilities

Long term liabilities	13,211,536	-	13,211,536	11,442,543	(1,768,993)
Finance lease obligation	-	-	-	1,056,937	1,056,937
Payables from exchange transactions	183,553,449	(83,073,647)	100,479,802	168,366,735	67,886,933
Taxes and transfers payable (non-exchange)	-	-	-	2,101,406	2,101,406
Consumer deposits	83,484,299	-	83,484,299	89,257,757	5,773,458
Employee benefit obligation	-	-	-	3,224,000	3,224,000
Unspent conditional grants and receipts	-	-	-	2,026,623	2,026,623
Provisions	5,703,410	-	5,703,410	1,518,821	(4,184,589)
Long service award	-	-	-	1,651,000	1,651,000
	285,952,694	(83,073,647)	202,879,047	280,645,822	77,766,775

Non-Current Liabilities

Long term liabilities	276,281,169	(209,151,053)	67,130,116	55,323,355	(11,806,761)
Finance lease obligation	-	-	-	4,571,138	4,571,138
Employee benefit obligation	-	-	-	87,625,060	87,625,060
Provisions	118,799,336	1,151,295	119,950,631	25,000,895	(94,949,736)
Long service award	-	-	-	16,943,629	16,943,629
	395,080,505	(207,999,758)	187,080,747	189,464,077	2,383,330

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Total Liabilities	681,033,199	(291,073,405)	389,959,794	470,109,899	80,150,105	
Net Assets	6,411,411,369	226,871,137	6,638,282,506	6,626,254,742	(12,027,764)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Reserves	239,282,039	-	239,282,039	-	(239,282,039)	
Accumulated surplus	6,172,129,330	226,871,137	6,399,000,467	6,626,254,742	227,254,275	
Total Net Assets	6,411,411,369	226,871,137	6,638,282,506	6,626,254,742	(12,027,764)	

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Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	1,202,324,931	(39,233,653)	1,163,091,278	1,100,580,868	(62,510,410)	
Grants	197,244,905	3,651,767	200,896,672	182,724,355	(18,172,317)	
Interest income	27,295,833	7,420,300	34,716,133	51,293,074	16,576,941	
	1,426,865,669	(28,161,586)	1,398,704,083	1,334,598,297	(64,105,786)	

Payments

Suppliers	(1,201,983,860)	30,730,193	(1,171,253,667)	(1,068,180,504)	103,073,163	
Finance costs	(35,746,556)	15,891,928	(19,854,628)	(7,617,271)	12,237,357	
Grants paid	(1,760,000)	(4,283,817)	(6,043,817)	(5,963,573)	80,244	
	(1,239,490,416)	42,338,304	(1,197,152,112)	(1,081,761,348)	115,390,764	

Net cash flows from operating activities	187,375,253	14,176,718	201,551,971	252,836,949	51,284,978	
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Cash flows from investing activities

Purchase of property, plant and equipment	(257,174,759)	(51,804,322)	(308,979,081)	(250,574,484)	68,404,597	
Proceeds from sale of property, plant and equipment	150,000	-	150,000	2,963,595	2,813,595	
Movement in investments (Incl. Controlled entities, JVs & Assoc)	(144,000,000)	270,000,000	126,000,000	3,000,000	(123,000,000)	
Long term receivables	-	-	-	25,270	25,270	
Net cash flows from investing activities	(401,024,759)	218,195,678	(182,829,081)	(244,585,619)	(61,756,538)	

Cash flows from financing activities

Borrowings long term	224,162,140	(224,162,140)	-	-	-	
Increase / (decrease) in finance lease	5,765,991	(2,847,113)	2,918,878	5,521,270	2,602,392	
Repayment of borrowing	(16,770,192)	-	(16,770,192)	(10,334,263)	6,435,929	
Net cash flows from financing activities	213,157,939	(227,009,253)	(13,851,314)	(4,812,993)	9,038,321	

Net increase/(decrease) in cash and cash equivalents	(491,567)	5,363,143	4,871,576	3,438,337	(1,433,239)	
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Cash and cash equivalents at the beginning of the year	61,718,601	18,911,982	80,630,583	80,463,242	(187,341)	
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Cash and cash equivalents at the end of the year	61,227,034	24,275,125	85,502,159	83,901,579	(1,600,580)	
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Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
R	R	R	R	R	R	R	R	R	R	R

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Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
2017											
Financial Performance											
Property rates	304,861,283	2,370,610	307,231,893	-	-	307,231,893	309,753,630		2,521,737	101 %	102 %
Service charges	773,395,343	(44,129,495)	729,265,848	-	-	729,265,848	723,831,163		(5,434,685)	99 %	94 %
Investment revenue	24,981,300	6,700,000	31,681,300	-	-	31,681,300	47,867,886		16,186,586	151 %	192 %
Transfers recognised - operational	140,560,000	-	140,560,000	-	-	140,560,000	141,123,061		563,061	100 %	100 %
Other own revenue	126,382,838	3,395,532	129,778,370	-	-	129,778,370	100,403,410		(29,374,960)	77 %	79 %
Total revenue (excluding capital transfers and contributions)	1,370,180,764	(31,663,353)	1,338,517,411	-	-	1,338,517,411	1,322,979,150		(15,538,261)	99 %	97 %
Employee costs	(412,117,366)	(6,568,785)	(418,686,151)	-	-	(418,686,151)	(417,546,634)		1,139,517	100 %	101 %
Remuneration of councillors	(21,075,836)	404,500	(20,671,338)	-	-	(20,671,338)	(19,588,849)		1,082,489	95 %	93 %
Debt impairment	(9,973,836)	(5,500,000)	(15,473,836)			(15,473,836)	(29,180,141)		(13,706,305)	189 %	293 %
Depreciation and asset impairment	(154,696,859)	-	(154,696,859)			(154,696,859)	(157,925,811)		(3,228,952)	102 %	102 %
Finance charges	(35,746,556)	15,891,928	(19,854,628)	-	-	(19,854,628)	(18,639,974)		1,214,654	94 %	52 %
Materials and bulk purchases	(422,709,506)	3,268,320	(419,441,186)	-	-	(419,441,186)	(410,753,825)		8,687,361	98 %	97 %
Transfers and grants	(1,760,000)	(4,283,817)	(6,043,817)	-	-	(6,043,817)	(5,963,573)		80,244	99 %	339 %
Other expenditure	(346,081,150)	24,517,125	(321,564,025)	-	-	(321,564,025)	(247,066,722)		74,497,303	77 %	71 %
Total expenditure	(1,404,161,111)	27,729,271	(1,376,431,840)	-	-	(1,376,431,840)	(1,306,665,529)		69,766,311	95 %	93 %
Surplus/(Deficit)	(33,980,347)	(3,934,082)	(37,914,429)	-	-	(37,914,429)	16,313,621		54,228,050	(43)%	(48)%

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	56,684,905	3,651,767	60,336,672	-	60,336,672	49,604,679		(10,731,993)	82 %	88 %
Contributions recognised - capital and contributed assets	20,033,000	(332,875)	19,700,125	-	19,700,125	82,098,785		62,398,660	417 %	410 %
Surplus (Deficit) after capital transfers and contributions	42,737,558	(615,190)	42,122,368	-	42,122,368	148,017,085		105,894,717	351 %	346 %
Surplus/(Deficit) for the year	42,737,558	(615,190)	42,122,368	-	42,122,368	148,017,085		105,894,717	351 %	346 %
Capital expenditure and funds sources										
Total capital expenditure	257,134,759	51,844,322	308,979,081	-	308,979,081	321,009,311		12,030,230	104 %	125 %

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Annual Financial Statements for the year ended June 30, 2017

Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments and budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Cash flows											
Net cash from (used) operating	187,375,253	14,176,718	201,551,971	-	-	201,551,971	252,836,949		51,284,978	125 %	135 %
Net cash from (used) investing	(401,024,759)	218,195,678	(182,829,081)	-	-	(182,829,081)	(244,585,619)		(61,756,538)	134 %	61 %
Net cash from (used) financing	213,157,939	(227,009,253)	(13,851,314)	-	-	(13,851,314)	(4,812,993)		9,038,321	35 %	(2)%
Net increase/(decrease) in cash and cash equivalents	(491,567)	5,363,143	4,871,576	-	-	4,871,576	3,438,337		(1,433,239)	71 %	(699)%
Cash and cash equivalents at the beginning of the year	61,718,601	20,292,614	82,011,215	-	-	82,011,215	80,463,242		(1,547,973)	98 %	130 %
Cash and cash equivalents at year end	61,227,034	25,655,757	86,882,791	-	-	86,882,791	83,901,579		2,981,212	97 %	137 %

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Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a receivable.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of payment.

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus/deficit.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the key assumptions, discount rates and market prices may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as exchange rates, inflation and interest.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norms and on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality. Management will increase the useful lives of property, plant and equipment when annual re-assessments indicate significant differences in expectations to previous estimates.

Post-retirement benefits and other long-term benefits

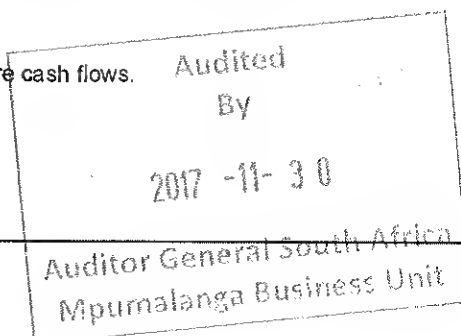
The present value of the post retirement obligation and other long-term employee obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the municipality considers market yields at the reporting date on the government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post-retirement and other long-term employee obligations are based on current market conditions. Additional information is disclosed in note 20.

Effective interest rate

The municipality used the incremental borrowing rate to discount future cash flows.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowance for impairment

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that is associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is, subsequent to initial measurement, carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	Indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

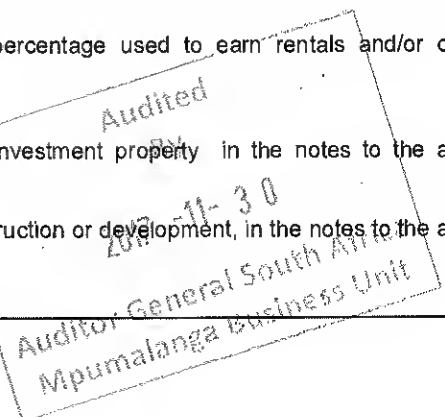
Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

- primary use of the property;
- partial own use, percentage used for own use compared to percentage used to earn rentals and/or capital appreciation; and
- ancillary services, significance of services provided.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 12).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 12).



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts and standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major spare parts and standby equipment and servicing equipment of property, plant and equipment that are required to be replaced at intervals, the municipality recognises such parts and equipment as individual assets with specific useful lives.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	30 - 100 years
Landfill site	Straight line	50 years
Infrastructure	Straight line	5 - 100 years
Community assets	Straight line	10 - 100 years
Other property, plant and equipment	Straight line	2 - 30 years
Housing - properties purchased from previous housing development fund	Straight line	30 - 100 years

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.4 Property, plant and equipment (continued)

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Items of municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 13).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 13).

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located; changes in the measurement of an existing decommissioning, restoration and similar liability that result from change in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle obligation, or change in discount rate; and the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Audited By 2017-18	
	Depreciation method	Average useful life
Computer software	Straight line	3 - 10 years

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Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.6 Intangible assets (continued)

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 14).

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount and is included in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from the municipality's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (as per Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

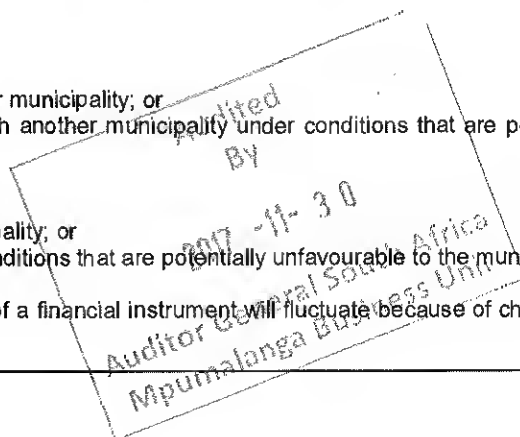
A financial asset is:

- cash;
- a residual interest of another municipality; or
- a contractual right to:
 - receive cash or another financial asset from another municipality; or
 - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.7 Financial Instruments (continued)

Liquidity risk is the risk encountered by the municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Receivables from exchange transactions
Receivables from non-exchange transactions
Cash and cash equivalents
Operating lease asset
Investments

Category

Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost
Financial asset measured at amortised cost

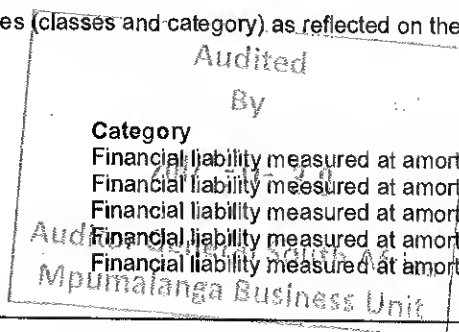
The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class

Payables from exchange transactions
Finance lease obligations
Consumer deposits
Long term liabilities
Operating lease liability

Category

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.7 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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By
2017 -11- 30
Auditor General South Africa
Mpumalanga Business Unit

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance, the account of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.8 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard of GRAP on Statutory Receivables) means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.8 Statutory receivables (continued)

- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the accounting policy on Revenue from exchange transactions or the accounting policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Other charges

Where the municipality is required or entitled to levy additional charges in terms of legislation, supporting regulations, by-laws or similar means on overdue or unpaid amounts, these charges are accounted for in terms of the municipality's accounting policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

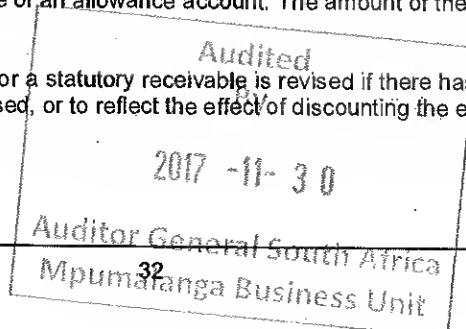
The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced through the use of an allowance account. The amount of the losses are recognised in surplus or deficit.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.



Steve Tshwete Local Municipality

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Accounting Policies

1.8 Statutory receivables (continued)

Any previously recognised impairment loss is adjusted by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The municipality considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

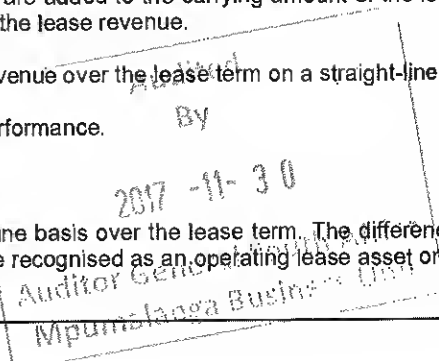
Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.



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Accounting Policies

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

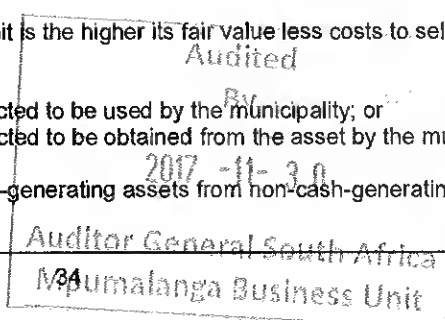
Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:



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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

- consideration of the manner in which assets are managed to determine whether their asset management practices are consistent with those in the profit-driven private sector;
- intention is to generate positive cash inflows from that asset and earn a return that reflects the risks involved in holding such an asset; and
- service delivery objective.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

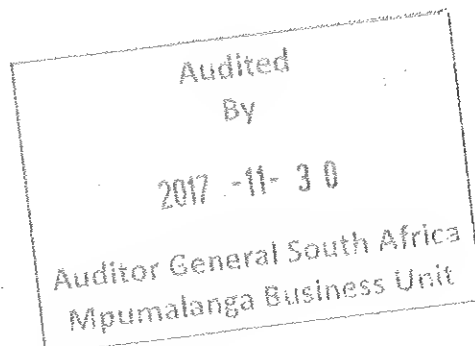
The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

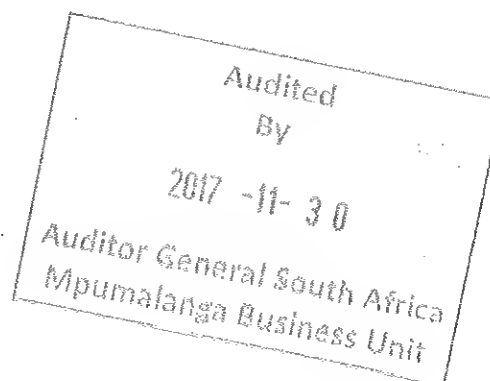
An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- Its fair value less costs to sell (if determinable);
- Its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rate to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:

- consideration of the manner in which assets are managed to determine whether their asset management practices are consistent with those in the profit-driven private sector;
- intention is to generate positive cash inflows from that asset and earn a return that reflects the risks involved in holding such an asset; and
- service delivery objective.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

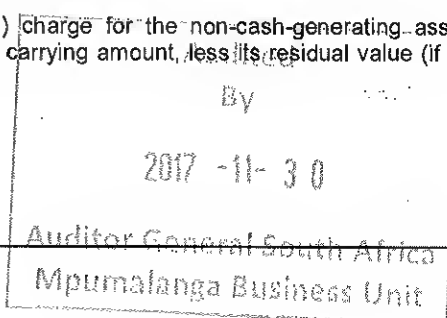
The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.



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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Reversal of an Impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- actuarial gains and losses; and
- past service cost.

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

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Accounting Policies

1.13 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

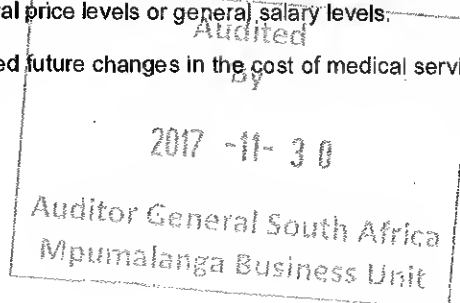
Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.13 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities.

Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost; and
- actuarial gains and losses, which shall all be recognised immediately.

Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes (as a minimum):

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

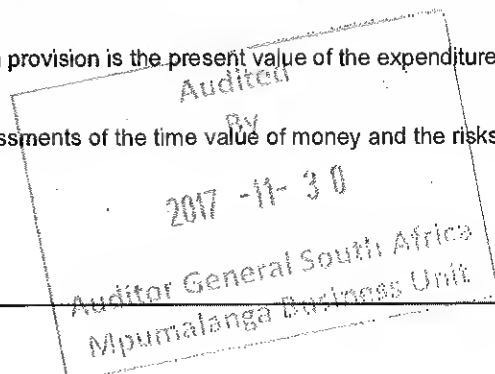
Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.14 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has reised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the municipality.

A contingent liability is an:

- a possible obligation that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- present obligation that arises from past events but is not recognised because, it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45.

Audited

By

2017 -11- 3 0

Auditor General South Africa
Mpumalanga Business Unit

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

The related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability are recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

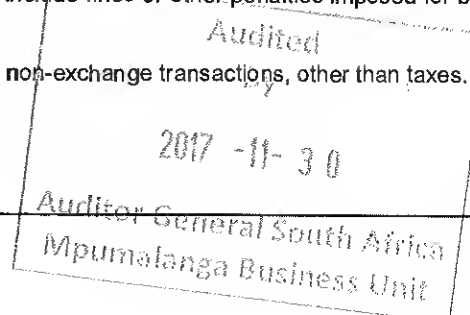
Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

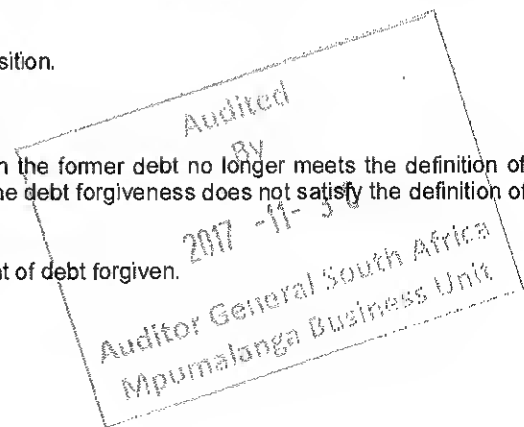
The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by receivables.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind that are significant to the municipality's operations and/or service delivery objectives are recognised as assets and the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note 47 for detail.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.21 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Irregular expenditure that was incurred and identified during the current financial end which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the Irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

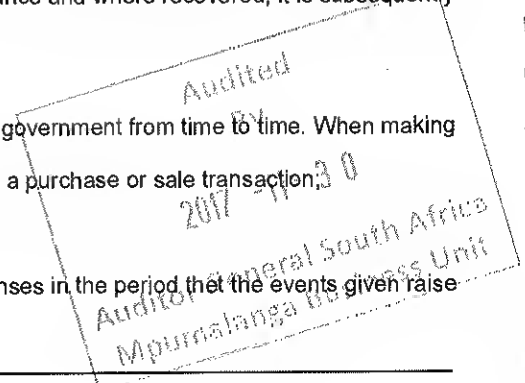
Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Grant in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in the future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events given rise to the transfer occurred.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.25 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jun-16 to 30-Jun-17.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the statement of comparison of budget and actual amounts.

Comparative information is not required.

1.26 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.28 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credited against accumulated surplus when retrospective adjustments are made.

1.29 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15 (2) of the VAT Act (Act No 89 of 1991).

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

Notes to the Annual Financial Statements

	2017 R	2016 R
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 16 (as revised 2015) Investment Property

The following amendments were made to the standard:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarification of the wording related to the use of external valuers;
- introduction of more specific presentation and disclosure requirements for capital work-in-progress;
- encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements is now required.

The effective date of the amendment is for years beginning on or after April 01, 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

GRAP 17 (as revised 2015) Property, Plant and Equipment

The following amendments were made to the standard:

- the principles and explanations related to the distinction between investment property and property, plant and equipment were reviewed;
- an indicator-based assessment of useful lives of assets was introduced;
- clarification of the wording related to the use of external valuers;
- introduction of more specific presentation and disclosure requirements for capital work-in-progress;
- encouraged disclosures were deleted; and
- separate presentation of expenditure incurred on repairs and maintenance in the financial statements are now required.

The effective date of the amendment is for years beginning on or after April 01, 2016.

The municipality has adopted the amendment for the first time in the 2017 annual financial statements.

The adoption of this amendment has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2017 or later periods:

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers: definitions, preparation of separate financial statements, disclosure, transitional provisions and effective date.

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2017-11-30
Auditor-General South Africa
Mpumalanga Business Unit

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP 35: Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers: definitions, control, accounting requirements, investment entities: fair value requirement, transitional provisions and effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers: definitions, significant influence, equity method, application of the equity method, separate financial statements, transitional provisions and effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers: definitions, joint arrangements, financial statements and parties to a joint arrangement, separate financial statements, transitional provisions and effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of this standard is currently being assessed.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers: definitions, disclosing information about interests in other entities, significant judgements and assumptions, investment entity status, interests in controlled entities, interests in joint arrangements and associates, interests in structured entities that are not consolidated, non-qualitative ownership interests, controlling interests acquired with the intention of disposal, transitional provisions and effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 110: Living and Non-Living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources.

It furthermore covers: definitions, recognition, measurement, depreciation, impairment, compensation for impairment, transfers, derecognition, disclosure, transitional provisions and effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in the municipality's financial statements. It also considers joint control of land by more than one entity.

When the municipality concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16) or Property, Plant and Equipment (GRAP 17). As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the municipality applies the applicable Standard of GRAP to account for the land once control of the land has been determined. The municipality also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date.

The impact of this interpretation is currently being assessed.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph 12).
- IPSASB amendments: to align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 16 (as amended 2016): Investment Property

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph 12); and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: to clarify the Interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

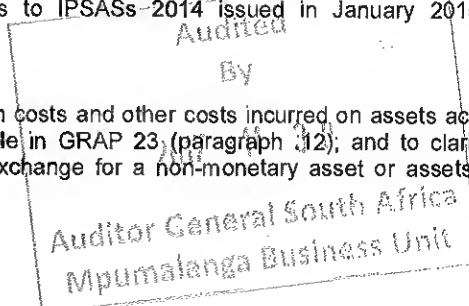
It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 17 (as amended 2016): Property, Plant and Equipment

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph 12); and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- IPSASB amendments: to clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; to align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and to define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 21 (as amended 2016): Impairment of non-cash-generating assets

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: to update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 26 (as amended 2016): Impairment of cash-generating assets

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets Issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: to update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 31 (as amended 2016): Intangible Assets

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: to add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph 12); and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: to clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and to clarify acceptable methods of depreciating assets.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: to clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and to clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106 (as amended 2016): Transfers of functions between entities not under common control

Amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: to require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Audited
By
2017
Auditor General South Africa
Mpumalanga Business Unit

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- close member of the family of a person;
- management;
- related parties;
- remuneration; and
- significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by the municipality to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when the municipality is a principal or an agent.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The impact of this standard is currently being assessed.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and the operator is compensated for its services over the period of the service concession arrangement. The operator providing the mandated function can either be a private party or another public sector entity.

Public Private Partnership agreements that are governed and regulated in terms of the MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph 07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables, because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any interest or other changes that may have accrued on the receivable (where applicable), impairment losses and amounts derecognised.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard but has already formulated an accounting policy for this reporting period based on the Standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 18 Segment reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in the budget documentation will usually reflect the segments for which a municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of a municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by a municipality within a particular region.

This Standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

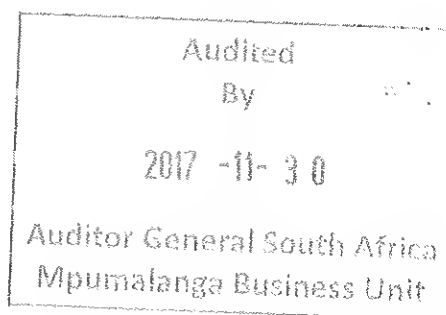
The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after April 01, 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.



Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
3. Inventories		
Land	152,693,595	151,842,159
RDP houses	128,952	128,952
Consumable stores	15,619,825	17,246,909
Water	357,435	457,260
	168,799,807	169,675,280
3.1 Inventory shortages and surpluses		
Inventory shortages written off during the year	(15,799)	(109,379)
Inventory surpluses for the year	9,166	85,458
	(6,633)	(23,921)
Inventories to the total amount of R14 286 (2016: R5 538 524) was written down to net realisable value.		
Inventory pledged as security		
During the year no inventory was pledged as security.		
4. Long term receivables		
At amortised cost		
Sale of erven	37,657	62,927
Loans were given at a low interest rate of 7.5% per annum to encourage development through the sale of vacant land. In terms of the MFMA no new loans are granted. The remaining repayment terms is less than 12 months.		
Non-current assets		
At amortised cost	-	21,239
Current assets		
At amortised cost	37,857	41,688
5. Operating lease asset		
Current assets	262,158	2,292,990
Minimum lease income		
- within one year	10,960,011	9,831,803
- second to fifth year	47,223,964	822,467
- after five years	55,788	196,129
	58,239,763	10,850,399
1. Izimbiwa Coal Pty Ltd - Lease of Farms in Middelburg.		
The contract expires on 31 March 2022. The contract escalates annually at 6%.		
Actual income levied 2016/2017		R806 481
Expected levy income 2017/2018		R11 510 975
Annual straightlining		R152 769
2. Optimum Coal Mine (PTY) LTD - Rental of the remainder of portion 27 of the Farm Middelburg Town and Townlands 287 JS.		
The contract expires on 31 March 2018. The contract escalates annually with 10%.		
Actual income levied 2016/2017		R92 928
Expected levy income 2017/2018		R68 318
Annual straightlining		R8 347

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
5. Operating lease asset (continued)		
3. Brand House Media: Erection and maintenance of advertising billboards in Mhluzi. The contract expires on 31 March 2024. The contract escalates annually with 7.5%		
Actual income levied 2016/2017	R42 579.69	
Expected levy income 2017/2018	R52 832.95	
Annual straightlining	R26 965.46	
4. Phola Coaches: Rental of the remainder of portion 27 of the Farm Middelburg Town and Townlands 287 JS. The contract expires on 31 October 2019. The contract escalates annually with 8%.		
Actual income levied 2016/2017	R49 400.00	
Expected levy income 2017/2018	R82 324.38	
Annual straightlining	R5 482.92	
5. Mayivhuthu Contractors: Rental of a portion of Erf 3131 Mhluzi for car wash purposes. The contract expires on 1 May 2019. The contract escalates annually with 10%.		
Actual income levied 2016/2017	R57 895	
Expected levy income 2017/2018	R62 909	
Annual straightlining	R6 728	
6. Mpumalanga Mental Health Society: Rental of a portion of the office building on Erf 11848 Mhluzi Extension 7. The contract expires on 31 March 2019. The contract escalates annually with 10%.		
Actual income levied 2016/2017	R45 144.00	
Expected levy income 2017/2018	R48 676.86	
Annual straightlining	R5 442.08	
6. Other receivables from exchange transactions		
Accrued Interest	17,622,326	14,677,996
Consumer debtors	1,686,002	1,251,924
Deposits	1,133,307	1,073,672
Dumping site levies	223,114	257,221
Main service contribution	6,366,921	4,895,891
Sundry receivables	1,973,890	2,850,633
Insurance	-	22,522
Leases	5,480,668	6,167,243
Impairment	(5,650,715)	(5,103,288)
	28,835,511	26,093,814
Other receivables pledged as security		
None of other receivables were pledged as security.		
Other receivables past due but not impaired		
Other receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2017 and 30 June 2016, all accounts past due were impaired.		
Other receivables impaired		
As of June 30, 2017, other receivables of R 6,598,432 (2016: R 6,692,211) were impaired and provided for.		
The amount of the provision was R 588,332 as of June 30, 2017 (2016: R 703,563).		
The ageing of these receivables is as follows:		
0 to 3 months	1,016,758	-
3 to 6 months	3,895,672	2,847,158
Over 6 months	1,686,002	3,845,053

Steve Tshwete Local Municipality

Annual Financial Statements for the year ended June 30, 2017

Notes to the Annual Financial Statements

	2017 R	2016 R
6. Other receivables from exchange transactions (continued)		
Reconciliation of provision for impairment of other receivables		
Opening balance	(5,103,288)	(5,886,614)
Provision for impairment	(588,332)	703,563
Amounts written off as uncollectible	40,905	79,763
	<u>(5,650,715)</u>	<u>(5,103,288)</u>
7. Receivables from non-exchange transactions		
Traffic fines	50,904,835	38,282,560
Less: Allowance for impairment	(45,195,451)	(27,157,504)
	<u>5,709,384</u>	<u>11,125,056</u>
Receivables from non-exchange transactions past due but not impaired		
Receivables from non-exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2017 and 30 June 2016 all amounts past due were impaired.		
Receivables from non-exchange transactions impaired		
As at June 30, 2017, other receivables from non-exchange transactions of R 45,195,451 (2016: R 27,157,504) were impaired and provided for.		
The amount of the provision was R 18,037,947 as of June 30, 2017 (2016: R 5,154,483).		
Reconciliation of allowance for impairment		
Opening balance	(27,157,504)	(22,003,021)
Provision for impairment	(18,037,947)	(5,154,483)
	<u>(45,195,451)</u>	<u>(27,157,504)</u>
8. VAT receivable		
VAT	<u>6,441,569</u>	<u>6,070,158</u>
The municipality is registered for VAT on the payment basis.		
9. Trade receivables from exchange transactions		
Gross balances		
Rates	41,917,396	39,362,816
Electricity	30,182,347	24,579,010
Water	11,943,265	10,462,638
Sewerage	8,328,294	7,389,419
Refuse	7,178,858	6,477,458
Housing rental	59,535	52,288
VAT, interest and deposits	12,331,981	11,157,742
	<u>111,941,676</u>	<u>99,481,371</u>

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	2017 R	2016 R
9. Trade receivables from exchange transactions (continued)		
Less: Allowance for impairment		
Rates	(12,631,966)	(10,278,024)
Electricity	(9,095,565)	(6,418,074)
Water	(3,599,148)	(2,732,006)
Sewerage	(2,509,763)	(1,929,526)
Refuse	(2,163,376)	(1,691,395)
Housing rental	(17,941)	(13,653)
VAT, interest and deposits	(3,716,289)	(2,913,511)
	(33,734,048)	(25,976,189)
Net balance		
Rates	29,285,430	29,084,392
Electricity	21,086,782	18,160,935
Water	8,344,117	7,730,633
Sewerage	5,818,531	5,459,893
Refuse	5,015,482	4,786,063
Housing rental	41,594	38,635
VAT, interest and deposits	8,615,692	8,244,231
	78,207,628	73,504,782
Included in above is receivables from exchange transactions		
Electricity	21,086,782	18,160,935
Water	8,344,117	7,730,633
Sewerage	5,818,531	5,459,893
Refuse	5,015,482	4,786,063
Housing rental	41,594	38,634
VAT, interest and deposits	8,615,892	8,244,231
	48,922,198	44,420,389
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	28,862,089	29,084,392
Net balance	77,784,287	73,504,781
Rates		
Current (0 -30 days)	19,438,229	18,940,886
31 - 60 days	2,171,065	2,050,054
61 - 90 days	1,523,360	2,569,144
91 - 120 days	1,180,065	1,106,046
121 - 150 days	1,044,357	973,907
> 151 days	16,562,320	13,722,779
	41,917,396	39,362,816
Electricity		
Current (0 -30 days)	25,684,752	20,102,232
31 - 60 days	799,892	924,814
61 - 90 days	499,997	757,751
91 - 120 days	351,412	308,982
121 - 150 days	204,672	217,776
> 151 days	2,641,622	2,267,456
	30,182,347	24,579,011

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	2017 R	2016 R
9. Trade receivables from exchange transactions (continued)		
	50,229,534	44,203,221
Reconciliation of allowance for impairment		
Balance at beginning of the year	(25,976,589)	(22,234,479)
Contributions to allowance	(10,553,862)	(3,842,360)
Debt impairment written off against allowance	2,796,403	100,250
	(33,734,048)	(25,976,589)

None of trade receivables were pledged as security.

Trade receivables which are less than 1 month past due are not considered to be impaired. At 30 June 2017 and 30 June 2016, all accounts past due were impaired.

As of 30 June 2017, trade receivables of R 50 29 534 (2016: R44 203 221) were impaired and provided for. This includes rates which is also separately disclosed in the receivables from non-exchange transactions note.

The amount of the provision was R 10 553 862 as of 30 June 2017 (2016: R 3 841 960).

10. Investments

At ammortised cost

ABSA Bank	108,000,000	97,000,000
First National Bank	72,000,000	72,000,000
Investec Bank	72,000,000	72,000,000
Nedbank	108,000,000	97,000,000
Standard Bank	72,000,000	97,000,000
Investec Call Account	50,000,000	50,000,000
	482,000,000	485,000,000

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	42,380	42,380
Bank balances	83,859,199	80,420,862
	83,901,579	80,463,242

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
ABSA Bank (Nelspruit)-cheque account 1040-000-077	68,026,305	72,632,713	89,450,780	51,852,101	54,493,222	78,503,556
ABSA Bank (Nelspruit)-cheque account 4078-303-563	32,119,664	25,274,564	20,456,780	32,007,098	25,927,640	20,389,170
Total	100,145,969	97,907,277	109,907,560	83,859,199	80,420,862	98,892,726

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	2017 R	2016 R
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12. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Property - land	26,006,538	-	26,006,538	25,950,913	-	25,950,913

Reconciliation of investment property - 2017

	Opening balance	Transfers from inventory	Total
Property - land	25,950,913	55,625	26,006,538

Reconciliation of Investment property - 2016

	Opening balance	Transfers from property, plant and equipment	Total
Property - land	25,932,208	18,705	25,950,913

Pledged as security

None of the above investment property has been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

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Figures in Rand

13. Property, plant and equipment

	2017		2016	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Buildings	313,641,410	(117,206,012)	196,435,398	309,868,340
Community	765,294,502	(263,096,432)	502,198,070	745,621,745
Housing - property purchased previously from housing development fund	2,268,618	(1,705,657)	562,961	6,742,684
Infrastructure	5,723,753,437	(2,778,673,825)	2,945,079,612	5,502,309,894
Land	2,427,853,190	-	2,427,853,190	2,397,585,938
Other property, plant and equipment	317,446,790	(180,769,821)	136,676,969	273,182,069
Total	9,550,257,947	(3,341,451,747)	6,208,806,200	9,235,310,650
				(3,187,515,645)
				6,047,795,005

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Figures in Rand

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers to/from inventory	Depreciation	Impairment loss	Total
Buildings	200,128,699	3,773,070	-	-	(7,321,428)	(144,943)	196,435,398
Community	499,398,917	19,674,527	(147)	-	(15,830,828)	(1,044,397)	502,198,072
Housing - property purchased previously from housing development fund	1,782,664	-	(1,139,606)	-	(80,096)	-	562,962
Infrastructure	2,837,994,038	221,443,543	-	-	(110,839,421)	(3,518,546)	2,945,079,614
Land	2,397,585,937	36,380,349	(2,617,556)	(3,495,540)	-	-	2,427,853,190
Other property, plant and equipment	110,904,750	44,597,678	(109,711)	-	(16,391,892)	(2,323,860)	136,676,965
	6,047,795,005	325,869,167	(3,867,020)	(3,495,540)	(150,463,665)	(7,031,746)	6,208,806,201

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers to/from inventory	Depreciation	Impairment loss	Total
Buildings	198,671,769	8,537,851	-	-	(6,990,844)	(90,077)	200,128,699
Community	505,033,136	11,557,371	(1,936)	-	(15,835,576)	(1,354,078)	499,398,917
Housing - property purchased previously from housing development fund	1,922,264	-	-	-	(139,600)	-	1,782,664
Infrastructure	2,746,831,644	208,323,365	-	-	(107,177,409)	(9,983,563)	2,837,994,037
Land	2,398,002,045	20,280,350	(1,716,429)	(18,980,029)	-	-	2,397,585,937
Other property, plant and equipment	- 102,240,092	27,748,556	(553,601)	-	(16,980,014)	(1,550,282)	110,904,751
	5,952,700,950	276,447,493	(2,271,966)	(18,980,029)	(147,123,443)	(12,978,000)	6,047,795,005

None of the above property, plant and equipment have been pledged as security.

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	2017 R	2016 R
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13. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	94,009,847	318,650	4,839,206	99,167,703
Additions/capital expenditure	60,365,336	1,005,138	1,128,145	62,498,619
Transferred to completed items	(46,318,770)	(318,650)	(3,068,492)	(49,705,912)
	108,056,413	1,005,138	2,898,859	111,960,410

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	110,871,813	460,902	1,782,613	113,115,328
Additions/capital expenditure	66,245,194	318,650	3,076,071	69,639,915
Transferred to completed items	(83,107,160)	(460,902)	(19,478)	(83,587,540)
	94,009,847	318,650	4,839,206	99,167,703

Expenditure Incurred to repair and maintain property, plant and equipment

Contracted services	14,100,303	4,204,529
Sale of goods/inventory	13,235,503	12,468,975
General expenses	42,583,132	46,553,397
	69,918,938	63,226,901

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

14. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	13,737,669	(6,381,057)	7,356,612	7,266,341	(5,981,605)	1,284,736

Reconciliation of Intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	1,284,736	6,488,478	(487)	(416,114)	7,356,613

Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software	1,895,644	(610,908)	1,284,736

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	2017 R	2016 R
14. Intangible assets (continued)		
Pledged as security		
None of the above intangible assets have been pledged as security.		
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.		
Repairs and maintenance incurred for intangible assets for 2017: R4 528 836 (2016: R4 772 942).		
15. Long term liabilities		
At amortised cost		
Infrastructure Finance Corporation	17,343,026	19,939,438
Interest at 9.59% redeemable on 30/06/2022		
Infrastructure Finance Corporation	19,763,484	22,132,443
Interest at 9.29% redeemable on 30/06/2023		
Infrastructure Finance Corporation	21,977,313	24,149,782
Interest at 9.02% redeemable on 30/06/2024		
First National Bank	7,682,075	10,878,498
Interest at 12.50% redeemable on 30/06/2019		
	<u>66,765,898</u>	<u>77,100,161</u>
Total other financial liabilities	<u>66,765,898</u>	<u>77,100,161</u>
Non-current liabilities		
At amortised cost	<u>55,323,355</u>	<u>66,765,898</u>
Current liabilities		
At amortised cost	<u>11,442,543</u>	<u>10,334,263</u>

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	2017 R	2016 R
16. Finance lease obligation		
Minimum lease payments due		
- within one year	1,597,980	110,033
- in second to fifth year inclusive	5,459,765	-
	7,057,745	110,033
less: future finance charges	(1,429,669)	(3,228)
Present value of minimum lease payments	5,628,076	106,805
Present value of minimum lease payments due		
- within one year	1,056,937	106,805
- in second to fifth year inclusive	4,571,138	-
	5,628,075	106,805
Non-current liabilities	4,571,138	-
Current liabilities	1,056,937	106,805
	5,628,075	106,805

It is the municipality policy to lease photocopiers under finance leases. During the period under review the municipality entered into a lease agreement with Nashua for 51 machines for a period of 5 years. An effective borrowing rate of 10.5% was used for valuation of finance lease obligation.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 13.

17. Payables from exchange transactions

Trade payables	92,302,735	92,755,531
Consumer receivables paid in advance	6,973,540	6,827,040
Pre-paid meter sales in advance	5,276,200	3,667,552
Retentions payable	28,718,282	24,610,553
Staff leave	27,040,024	25,877,249
Sundry receivables paid in advance	727,537	584,476
Third party pre-paid sales in advance	6,579,262	2,980,639
Other payables	749,155	1,103,725
	168,366,735	168,406,765

18. Payables from non exchange transactions

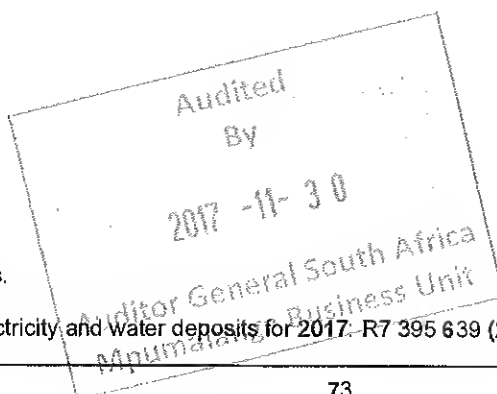
Housing accreditation grant	903,874	1,091,332
Informal housing grant (RDP)	139,415	139,415
Payable to National Treasury	-	1,045,593
Other government grants	272,209	272,209
Department of Human Settlement	785,908	4,247,961
	2,101,406	6,796,510

19. Consumer deposits

Electricity and water	67,038,745	62,500,256
Sundry	22,221,012	19,386,251
	89,257,757	81,886,507

No interest is paid on deposits.

Guarantees hold in lieu of electricity and water deposits for 2017: R7 395 639 (2016: R7 108 889).



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	2017 R	2016 R
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20. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme.

The municipality has a policy to subsidise the medical aid contributions of permanently employed employees who go on retirement, provided they are members of the municipal accredited medical aid schemes. All existing continuation members (pensioners) and their dependants will continue to receive either a 60% or 70% subsidy depending on when they retired. This subsidy is subject to the maximum amount of R3 871 (per month per member) for the period from 1 July 2016 to 30 June 2017.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation	(90,849,060)	(83,610,781)
Non-current liabilities	(87,625,060)	(81,109,921)
Current liabilities	(3,224,000)	(2,500,860)
	<u>(90,849,060)</u>	<u>(83,610,781)</u>

Changes in the present value of the employee benefit obligation are as follows:

Opening balance	83,610,780	73,395,987
Benefits paid	(3,159,812)	(2,441,288)
Net expense recognised in the statement of financial performance	10,398,091	12,656,061
	<u>90,849,059</u>	<u>83,610,780</u>

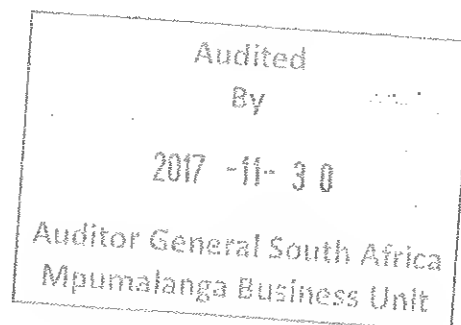
Net expense recognised in the statement of financial performance

Current service cost	4,951,442	3,890,847
Interest cost	7,907,942	6,504,570
Actuarial (gains) losses	(2,461,293)	2,260,644
	<u>10,398,091</u>	<u>12,656,061</u>

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.66 %	9.36 %
Consumer inflation	6.53 %	6.91 %
Medical cost trend rates	8.03 %	8.41 %
Net effective discount rate	1.50 %	0.88 %
Average retirement age	63	63



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	2017 R	2016 R
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20. Employee benefit obligations (continued)

Other assumptions

Valuation results are sensitive to changes in the underlying assumptions. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Healthcare inflation - effect on the aggregate of the service cost and interest cost	-	10,832,800
Healthcare inflation - effect on defined benefit obligation	105,631,000	87,076,000
Discount rate - effect on the aggregate of the service cost and interest cost	-	9,468,000
Discount rate - effect on defined benefit obligation	79,035,000	72,391,000

Amounts for the current and previous four years are as follows:

	2017 R	2016 R	2015 R	2014 R	2013 R
Post-retirement medical aid benefit	90,849,059	83,610,780	73,395,987	70,425,000	69,623,708

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits. During the year the contributions expensed for the year amounted to R45 895 937 (2016: R42 147 770).

21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Informal housing grant (RDP)	1,993,207	1,993,207
Expanded Public Works Programme	33,416	-
Integrated national electricity programme	-	3,351,698
	2,026,623	5,344,905

See note 30 for reconciliation of grants from National/Provincial Government.

22. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Landfill rehabilitation	18,604,697	6,643,174	-	25,247,871
Performance bonus	1,031,576	1,021,805	(1,031,575)	1,021,806
Church erven	497,010	87,719	(334,690)	250,039
	20,133,283	7,752,698	(1,366,265)	26,519,716

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	2017 R	2016 R		
22. Provisions (continued)				
Reconciliation of provisions - 2016				
	Opening Balance	Additions	Utilised during the year	Total
Landfill rehabilitation	14,817,363	3,787,334	-	18,604,697
Performance bonus	2,088,843	1,031,586	(2,088,853)	1,031,576
Church erven	434,050	162,320	(99,360)	497,010
	17,340,256	4,981,240	(2,188,213)	20,133,283
Non-current liabilities		25,000,895		18,767,012
Current liabilities		1,518,821		1,366,271
		26,519,716		20,133,283

Environmental rehabilitation provision

The landfill rehabilitation is created for the rehabilitation of the current operational site which is evaluated at each year-end to reflect the best estimate at reporting date. The site under consideration is the Middelburg landfill site. The valuation for the landfill site was performed by Mr Seakle Godschalk Pr Sci Nat, from Environmental end Sustainability Solutions CC. Mr Godschalk is a registered professional environmental scientist with the South African Council for Natural Scientist Professions as well as the Southern African Institute of Ecologists and Environmental Scientists. Mr Godschalk is also a member of the Institute of Municipal Finance Officers.

Key financial assumptions used in this calculation were a CPI of 5.64%, a discount rate of 8.14% and therefore a net effective discount rate of 2.5%.

The 2017 discounted value of the landfill closure provision of R25 247 870 represents an increase of R6 643 173 compared to the provision of R18 604 697 in the previous financial year. Composition of this change relate to changes in the CPI, discount rate and unit costs. The interest charge relating to the assessment amounts to R1 573 288.

The landfill closure provision is calculated as the net present value of future cash flows based on the expected remaining life of the landfill site and based on the size of the area that had been used for waste disposal as at 30 June 2017. The size of the Middelburg landfill site used up until now is approximately 89.79 ha. The remaining life of the landfill is estimated at 7 years.

Performance bonus

The provision is to provide for performance bonuses of the section 57 employees and other senior managers where applicable.

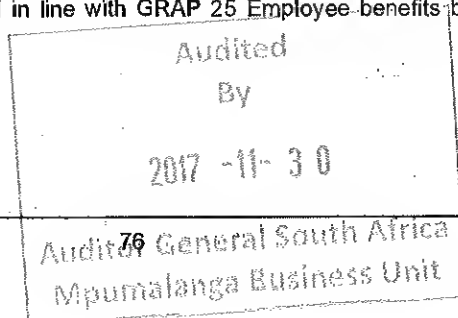
The provision is calculated at 14% of the total remuneration in terms of the performance agreements at reporting date which is usually within one year.

Church erven

The provision on church erven is for the obligation the municipality has to pay 25% of the purchase price back to the church once the property is fully developed within the period specified on the deed of sale. The provision is evaluated at year-end to reflect the best estimate at reporting date.

23. Long service award

Long service benefits are awarded in the form of a number of leave days once an employee has completed a certain number of years in service. The valuation was performed in line with GRAP 25 Employee benefits by Independent Actuaries and Consultants as at 30 June 2017.



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	2017 R	2016 R
23. Long service award (continued)		
Changes in the present value of the long service liability is:		
Opening balance	17,689,533	15,665,416
Current service cost	2,019,044	1,837,316
Interest cost	1,541,473	1,229,559
Benefits vested	(1,540,021)	(1,170,704)
Actuarial (gain)/loss	(1,115,400)	127,946
	18,594,629	17,689,533
Current liability	1,651,000	1,830,099
Non-current liability	16,943,629	15,859,434
	18,594,629	17,689,533
Defined benefit obligation	2017 18,594,629	2016 17,689,533
	2015 15,665,416	2014 16,746,000
		2013 13,740,077

Assumptions used at the reporting date:

Discount rates used	8.92 %	8.60 %
Normal salary increase rate	6.72 %	7.25 %
Net discount rate	2.05 %	1.26 %

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	2017 R	2016 R
24. Financial instruments disclosure		
Categories of financial instruments		
2017		
Financial assets		
	At amortised cost	Total
Receivables from exchange transactions	78,207,626	78,207,626
Cash and cash equivalents	83,901,579	83,901,579
Other receivables from exchange	28,835,511	28,835,511
Receivables from non-exchange transactions	5,709,384	5,709,384
investments	482,000,000	482,000,000
Long term receivables	37,657	37,657
	<u>678,691,757</u>	<u>678,691,757</u>
Financial liabilities		
	At amortised cost	Total
Finance lease obligation	5,628,075	5,628,075
Long term liability	66,785,898	66,785,898
Payables from non-exchange transactions	2,101,408	2,101,408
Payables from exchange transactions	168,366,735	168,366,735
Consumer deposits	89,257,757	89,257,757
	<u>332,119,871</u>	<u>332,119,871</u>

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	2017 R	2016 R
Financial instruments disclosure (continued)		
2016		
Financial assets		
	At amortised cost	Total
Receivables from exchange transactions	73,504,781	73,504,781
Cash and cash equivalents	80,463,242	80,463,242
Other receivables from exchange	86,093,814	86,093,814
Other receivables from non-exchange transactions	11,125,056	11,125,056
Investments	485,000,000	485,000,000
Long term receivables	41,688	41,688
	736,228,581	736,228,581
Financial liabilities		
	At amortised cost	Total
Finance lease obligation	106,805	106,805
Long term liability	77,100,161	77,100,161
Payables from non-exchange transactions	6,798,510	8,796,510
Consumer deposits	81,886,507	81,886,507
Payables from exchange transactions	158,406,765	158,406,765
	324,296,748	324,296,748
25. Service charges		
Sale of electricity	529,484,025	494,167,488
Sale of water	77,008,479	76,267,240
Sewerage and sanitation charges	55,618,239	51,911,965
Refuse removal	61,722,420	57,735,007
	723,831,163	680,081,700
26. Interest received - trading		
Property rates	1,488,322	1,106,923
Services	1,602,331	1,237,855
Sundry receivables	334,535	515,262
	3,425,188	2,860,040

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	2017 R	2016 R
27. Other income		
Administration fees	2,693,761	2,749,005
Building plan fees	1,380,405	1,356,762
Cemetery fees	728,210	450,567
Community service fees	707,538	697,426
Connection fees	5,397,987	5,361,912
Dumping site fees	1,365,769	1,361,033
ESKOM servitudes	-	1,275,365
Entrance fees	347,729	452,838
Insurance claims	1,399,043	1,291,212
Internal fees	8,064	30,424
Main service contribution	5,421,598	7,398,316
Meter testing fees and calls	4,843	-
Option fee	286,446	273,171
Legal fees recovered	1,396,712	-
VAT recovery	549,530	-
Recovery of purification costs	134,855	360,589
Sale of erven	4,572,434	8,120,254
Sale of material and supplies	98,873	90,834
Skills development fund refund	308,085	828,579
Sundry income	993,029	818,771
Tender documents	459,109	404,784
Thuthuka business rescue	-	167,607
	28,254,020	33,489,449
28. Investment revenue		
Interest revenue		
Bank	16,179,375	10,889,896
Short term investments	31,688,511	29,869,689
	47,867,886	40,559,585

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R47 867 886 (2016: R40 559 585).

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	2017 R	2016 R
29. Property rates		
Rates received		
Commercial	132,734,387	123,796,592
Government	17,508,813	16,639,274
Privately owned towns	959,528	910,858
Residential	158,550,902	149,695,643
	309,753,630	291,042,367
Valuations		
Commercial	4,922,181,200	4,828,000,600
Government	983,005,000	983,005,000
Privately owned towns	178,996,000	179,974,000
Residential	7,368,172,183	7,131,294,683
Other	5,028,044,450	4,932,923,400
	18,480,398,833	18,055,197,683

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation will be implemented on 01 July 2018.

A general rate of R0.12 (2016: R0.011) is applied to property valuations to determine assessment rates.

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	2017 R	2016 R
30. Government grants and subsidies		
Operating grants		
Equitable share	136,037,000	119,935,000
Expanded public works programme	966,614	955,803
Finance management grant	1,625,000	1,524,739
Municipal accreditation fund (MACEF)	87,458	252,634
Municipal infrastructure grant	2,406,989	1,777,490
Municipal systems improvement grant	-	940,000
	141,123,061	125,385,666
Capital grants		
Expanded public works programme	1,102,970	599,006
Integrated national electricity grant	3,351,698	12,048,302
Municipal infrastructure grant	45,050,011	44,411,879
Municipal accreditation fund (MACEF)	100,000	-
	49,604,679	57,059,187
	190,727,740	182,444,853

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R 437 (2016: R 424), which is funded from the grant. The grant is unconditional.

Finance management grant (FMG)

Current-year receipts	1,625,000	1,600,000
Conditions met - transferred to revenue	(1,625,000)	(1,524,743)
Payable to National Treasury	-	(75,257)
	-	-

The purpose of this grant is to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003 and to fund the internship programme.

Municipal systems improvement grant (MSIG)

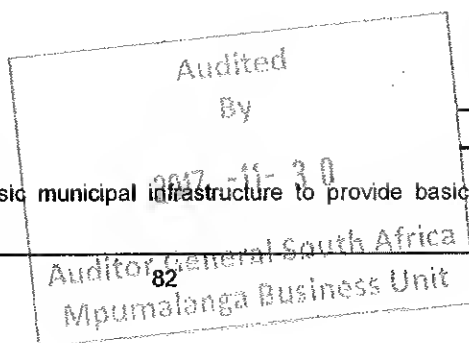
Current-year receipts	-	940,000
Conditions met - transferred to revenue	-	(940,000)
	-	-

The purpose of this grant is to build in-house capacity to perform their functions and stabilise institutional and governance systems.

Municipal infrastructure grant (MIG)

Current-year receipts	47,457,000	48,094,000
Conditions met - transferred to revenue	(47,457,000)	(46,189,369)
Capitalised in previous year	-	(962,490)
Payable to National Treasury	-	(942,141)
	-	-

The purpose of this grant is to construct basic municipal infrastructure to provide basic services for the benefit of poor households.



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	2017 R	2016 R
30. Government grants and subsidies (continued)		
Integrated national electrification programme (INEP)		
Balance unspent at beginning of year	3,351,698	-
Current-year receipts	-	15,400,000
Conditions met - transferred to revenue	(3,351,698)	(12,048,302)
	<u>-</u>	<u>3,351,698</u>

This grant is used to address the electrification backlog of permanently occupied residential dwellings the conditions of the grant were met and no funds have been withheld.

Informal housing grant (RDP)

Balance unspent at beginning of year	<u>1,993,207</u>	<u>1,993,207</u>
--------------------------------------	------------------	------------------

Conditions still to be met - remain liabilities (see note 21).

The purpose of the grant was to provide low cost housing.

Expanded public works programme (EPWP)

Current-year receipts	2,103,000	1,583,000
Conditions met - transferred to revenue	(2,069,584)	(1,554,809)
Payable to National Treasury	-	(28,191)
	<u>33,416</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 21).

The purpose of this grant is to effect a special performance-based incentive provided to provinces and municipalities that contribute to the employment creation efforts of the expanded public works program through the employment of previously unemployed people.

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	2017 R	2016 R
31. Public contributions and donations		
Developer donations	3,958,203	960,000
Glencore Mine	18,000	-
Government donations	34,620,000	21,200,000
Nkangala district municipality	39,526,644	38,975,026
Donation Mafube Colliery	3,414,938	-
BHP Billiton - donation of open space	311,000	-
Arbour city award	250,000	-
	82,098,785	61,135,026
Major classes: Capital		
Community assets - crafter stalls	-	1,272,292
Computers - hardware equipment	758,000	-
Infrastructure - electricity	2,607,135	-
Infrastructure - roads	5,114,917	5,662,977
Infrastructure - sanitation	14,175,001	-
Infrastructure - water	14,986,726	25,972,510
Other land	36,282,068	16,660,000
Spacialised vehicles - fire	-	6,067,247
Transfer stations	-	5,500,000
Specialised vehicles - refuse	4,500,000	-
Community halls	3,414,938	-
	81,838,785	61,135,026
Major classes: Operational		
Youth Function	10,000	-
Greening of environment	250,000	-
	260,000	-

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	2017 R	2016 R
32. Employee related costs		
Cellphone allowances	663,042	601,119
Group insurance	1,264,016	1,149,852
Housing benefits and allowances	4,579,148	4,406,922
Medical aid - company contributions	21,831,390	18,472,658
Current service cost	6,970,486	-
Overtime payments	74,400,890	58,615,753
Pension fund contributions	45,895,937	42,147,770
Salaries	257,468,424	233,707,212
UIF	2,366,188	2,134,027
WCA	2,107,113	2,069,830
	417,546,634	363,305,143

Municipal Manager: SM Mnguni (acting)

Annual remuneration	1,353,321	986,954
Cellphone allowance	26,411	24,916
Contributions to UIF, medical and pension funds	28,423	25,189
Performance bonus	-	253,453
Travel allowance	132,000	168,859
Other	4,747	4,294
	1,544,902	1,463,665

Appointed 01 March 2014 until 28 February 2018 (acting as municipal manager from 1 February 2015).

Executive Director Finance Services: E Wassermann

Annual remuneration	1,038,794	964,135
Cellphone allowance	26,404	24,910
Contributions to UIF, medical and pension funds	78,309	89,810
Performance bonus	-	455,299
Travel allowance	108,000	110,169
Other	4,923	4,731
	1,256,430	1,629,054

Appointed from 01 March 2012 until 28 February 2017.

Executive Manager Community Services: MC Hlatshwayo

Annual remuneration	1,074,468	994,948
Cellphone allowance	26,411	24,916
Contributions to UIF, medical and pension funds	30,725	27,302
Performance bonus	-	168,484
Travel allowance	120,000	120,278
Other	4,833	4,647
	1,256,437	1,340,575

Appointed from 01 March 2013 until 28 February 2018.

Executive Manager Infrastructure Services: NB Thobela

Annual remuneration	-	453,496
Cellphone allowance	-	10,991
Contributions to UIF, medical and pension funds	-	12,368
Performance bonus	-	85,705

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	2017 R	2016 R
32. Employee related costs (continued)		
Travel allowance	-	107,626
Other	-	44
	<u>-</u>	<u>670,230</u>

Employment started 01 July 2014 until 31 December 2015.

The remuneration of staff is within the upper limits of the SALGA Bargaining Council's determinations.

33. Remuneration of councillors

Councillor whip	676,276	614,764
Councillors	13,840,366	13,320,611
Executive mayor	804,685	811,529
Mayoral committee members	3,683,600	3,688,584
Speaker	583,922	654,115
	<u>19,588,849</u>	<u>19,089,603</u>

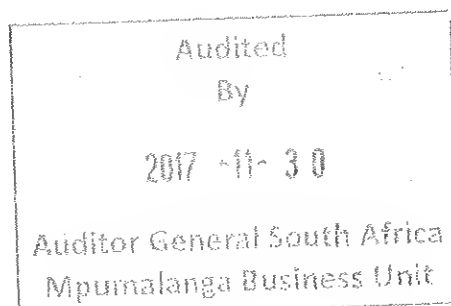
Councillors remuneration is made up of the following:

Councillors remuneration	12,319,253	12,131,687
Cell phone and other allowances	1,539,955	1,415,488
Medical aid contributions	393,922	509,703
Pension contributions	1,149,184	683,820
Travel allowance	4,186,535	4,348,905
	<u>19,588,849</u>	<u>19,089,603</u>

In-kind benefits

The executive mayor, chief whip, speaker and mayoral committee members are full-time. Each is provided with an office and secretarial support at the cost of the council. The executive mayor has use of a council owned vehicle and driver for official duties. The executive mayor has a personal assistant to assist him in his duties.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.



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	2017 R	2016 R				
33. Remuneration of councillors (continued)						
2017	Annual remuneration	Travel allowance	Pension contributions	Medical aid contributions	Cellphone and other allowances	Total
Executive mayor	464,843	177,043	65,533	64,866	32,400	804,685
MAS Masina						
Speaker AM	361,209	124,995	52,825	15,785	29,108	583,922
Mabena						
Chief whip SD	376,573	133,141	48,290	25,029	26,400	609,433
Nkadimeng						
Chief whip BP	38,772	15,868	4,326	5,038	2,839	66,843
Ndala						
	1,241,397	451,047	170,974	110,718	90,747	2,064,883
Mayoral committee	Annual remuneration	Travel allowance	Pension contributions	Medical aid contributions	Cellphone and other allowances	Total
Cllr MI Kgalema	338,031	117,273	49,375	15,785	23,769	544,233
Cllr DJ Motsepe	379,393	133,141	45,790	22,722	26,400	607,446
Cllr SM	373,730	125,785	53,634	-	26,400	579,549
Mapeleng						
Cllr MTE Mnguni	354,154	125,457	51,297	19,152	26,400	578,460
Cllr EP Nkosi	37,597	15,868	4,165	7,181	2,631	67,442
Cllr J Matshiane	391,132	122,215	8,920	15,785	26,400	564,452
Cllr JM Mitchell	331,533	117,273	43,080	26,396	23,769	542,051
Cllr NJ	39,745	15,868	4,216	6,512	2,839	69,180
Mahlangu						
Cllr EF	41,535	15,868	4,704	-	2,839	64,946
Mathebula						
Cllr H Pilodia	39,823	15,868	4,330	4,981	2,839	67,841
	2,326,673	804,616	269,511	118,514	164,286	3,683,600
Part time councillors	Annual remuneration	Travel allowance	Pension contributions	Medical aid contributions	Cellphone and other allowances	Total
Cllr LK	149,231	49,909	21,627	-	23,561	244,328
Mahlangu						
Cllr RG	137,463	49,909	19,553	13,887	23,561	244,373
Mamogale						
Cllr AB Marumo	170,287	49,909	-	-	23,561	243,757
Cllr TP Mnisi	149,230	49,908	21,627	-	23,561	244,326
Cllr TS Mottloun	151,401	50,334	24,553	-	23,561	249,849
Cllr ET Motsepe	149,231	49,909	21,627	-	23,581	244,328
Cllr DJ	172,489	56,541	17,695	-	26,400	273,125
Skhosana						
Cllr J Skosana	190,184	56,541	-	-	26,400	273,125
Cllr AM	149,231	49,909	21,627	-	23,561	244,328
Mahlangu						
Cllr MN	174,455	56,541	15,729	-	26,400	273,125
Mathibela						
Cllr TP Motau	149,230	49,909	21,627	-	23,561	244,327
Cllr DL Paul	149,231	49,909	21,627	-	23,561	244,328
Cllr MM Skosana	170,287	49,909	-	-	23,561	243,757
Cllr RM Xaba	167,410	66,987	21,955	31,262	26,400	314,014
Cllr LJN Zondo	149,231	49,909	21,627	-	23,561	244,328

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					2017 R	2016 R
33. Remuneration of councillors (continued)						
Cllr EM Bruiners	170,287	49,909	-	-	23,561	243,757
Cllr E Du Toit	166,591	56,541	23,593	-	26,400	273,125
Cllr J Dyason	190,184	56,541	-	-	28,400	273,125
Cllr AS Grobler	161,451	61,681	23,593	-	26,400	273,125
Cllr P Mobango	165,227	56,541	-	24,957	26,400	273,125
Cllr SM Mogola	183,677	56,541	-	6,507	26,400	273,125
Cllr HF Niemann	161,451	61,681	23,593	-	26,400	273,125
Cllr KJ Phasha	149,231	49,909	21,627	-	23,561	244,328
Cllr JP Pretorius	181,451	81,682	23,593	-	26,400	273,126
Cllr GHE Romijn	185,044	61,682	-	-	26,400	273,126
Cllr SJ Roos	185,044	61,681	-	-	26,400	273,125
Cllr P Sithole	173,636	61,681	-	10,131	26,400	271,848
Cllr HG De Klerk	165,147	55,049	-	-	23,561	243,757
Cllr A Struwig	187,100	59,625	-	-	26,400	273,125
Cllr DA	170,287	49,909	-	-	23,581	243,757
Stuurman						
Cllr TN Van Zyl	190,184	56,541	-	-	26,400	273,125
Cllr S Wait	185,044	61,681	-	-	26,400	273,125
Cllr JP	144,090	55,049	21,627	-	23,561	244,327
Duvenage						
Cllr KPJ Uys	166,591	56,541	23,593	-	26,400	273,125
Cllr P Maliola	149,231	49,909	21,627	-	23,581	244,328
Cllr A	149,231	49,909	21,627	-	23,561	244,328
Mangcotywa						
Cllr M Hadebe	165,147	55,049	-	-	23,561	243,757
Cllr CM Mosoma	144,090	55,049	21,627	-	23,561	244,327
Cllr JN	144,090	55,049	21,627	-	23,561	244,327
Mthombeni						
Cllr E Sebesho	144,090	55,049	21,627	-	23,561	244,327
Cllr M J	170,286	49,909	-	-	23,561	243,758
Sekgwele						
Cllr DS Khanyile	19,897	6,632	-	-	2,839	29,368
Cllr NJ Mlambo	19,897	6,632	-	-	2,839	29,368
Cllr ZD Mtshweni	19,897	6,632	-	-	2,839	29,368
Cllr DM	19,897	6,632	-	-	2,839	29,388
Longman						
Cllr TR	19,897	6,632	-	-	2,839	29,368
Langeveld						
Cllr GZ	19,897	6,632	-	-	2,839	29,368
Msimango						
Cllr PJ Masilela	19,897	6,632	-	-	2,839	29,368
Cllr L I Manzini	17,505	6,632	1,890	-	2,839	28,866
Cllr K N	14,347	6,632	1,459	5,759	2,839	31,036
Monareng						
Cllr L E Mkhuma	19,897	6,632	-	-	2,839	29,368
Cllr P P Tau	26,530	-	-	-	2,839	29,369
Cllr M R Mnguni	13,218	6,632	1,364	7,020	2,839	31,073
Cllr S S Zitha	19,897	6,632	-	-	2,839	29,368
Cllr B C	19,897	6,632	-	-	2,839	29,368
Skosana						
Cllr EA Jele	19,897	6,632	-	-	2,839	29,368
Cllr T B	19,897	6,632	-	-	2,839	29,368
Mahlangu						
Cllr M E Nyambi	19,897	6,632	-	-	2,839	29,368
Cllr P M	15,615	6,632	-	6,638	2,839	31,724
Shongwe						
	7,052,349	2,359,165	524,947	106,161	1,068,205	11,110,821

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					2017 R	2016 R
33. Remuneration of councillors (continued)						
Chairpersons	Annual remuneration	Travel allowance	Pension contributions	Medical aid contributions	Cellphone and other allowances	Total
Cllr M Mbatiwa	188,119	68,192	24,047	18,797	26,400	325,555
Cllr P M Masilela	175,419	61,560	24,951	-	23,561	285,491
Cllr M Masina	184,996	61,560	26,641	-	23,561	296,758
Cllr NC Mkhuma	176,035	61,306	25,080	9,761	23,400	295,582
Cllr T R Vilakazi	184,996	61,560	26,641	11,267	23,561	308,025
Cllr MJ Sekgwele	228,440	68,192	2,523	-	26,400	325,555
Cllr M Mphego	184,996	61,560	26,641	-	23,561	296,758
Cllr TN Morufane	215,076	68,192	22,611	-	28,400	332,279
Cllr P H Hadebe	22,465	8,512	2,426	-	2,839	36,242
Cllr S A Lukhele	25,535	8,512	-	-	2,839	36,886
Cllr O Malinga	25,535	8,512	-	-	2,839	36,886
Cllr M S Motebu	22,947	8,512	-	4,011	2,839	38,309
Cllr M J Selala	22,136	8,512	-	5,269	2,839	38,756
Cllr M T Selala	21,396	8,512	-	6,415	2,839	39,162
Cllr P I Thwala	20,748	8,512	2,200	3,012	2,839	37,311
	1,698,839	571,706	183,761	58,532	216,717	2,729,555
34. Depreciation and amortisation						
Property, plant and equipment					150,463,665	147,123,443
Intangible assets					416,114	610,908
					150,879,779	147,734,351
35. Impairment of assets						
Impairments						
Property, plant and equipment					7,031,746	12,978,003
During the year assets which were vandalised or replaced and no longer in use were impaired. These assets remaining service potential to the municipality is R0.						
36. Finance costs						
Annuity loans					7,249,011	8,372,957
Finance leases					368,260	18,140
Interest cost: landfill site					1,573,288	945,437
Interest cost: actuarial valuation					9,449,415	-
					18,639,974	9,336,534
Total interest expenses are calculated using the effective interest rate on borrowings. The interest rate vary between 9% and 13% (2016: 9% to 13%).						
37. Debt impairment						
Contributions to allowance for impairment					29,180,141	8,293,281
38. Bulk purchases						
Electricity					397,799,025	366,708,718
Water					12,954,800	12,909,378
					410,753,825	379,618,096

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	2017 R	2016 R
38. Bulk purchases (continued)		
Distribution losses incurred on water and electricity:		
2017		% loss
Electricity		10.35 %
Water		25.83 %
2016		% loss
Electricity		8.59 %
Water		28.79 %
39. Contracted services		
Commission fees	8,988,806	8,950,751
Garden waste removal services	9,949,540	8,396,334
Other contractors	10,378,666	10,689,808
Security services	13,339,870	10,549,898
	<u>42,654,882</u>	<u>38,586,791</u>
40. Grants and subsidies paid		
Business linkage centre	320,000	300,000
Forever resorts marathon	40,000	30,000
Free basic services	4,200,573	3,638,820
Rotary, schools and other	303,000	253,000
Society for the prevention of cruelty to animals (SPCA)	750,000	650,000
Tourism information centre	350,000	330,000
	<u>5,963,573</u>	<u>5,201,820</u>

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	2017 R	2016 R
41. General expenses		
Advertising and publicity	5,936,634	5,056,210
Auditors remuneration	4,135,664	4,111,626
Bank charges	2,732,292	2,345,488
Eviction expenses	909,650	124,790
Consulting fees	9,405,643	7,452,457
Corporate expenditure	4,600,403	8,630,498
Deed search	470,064	175,512
EPWP programmes	966,614	955,803
Entertainment	3,427,398	2,897,605
Eskom connection fees	-	89,358
Fuel and oil	13,658,114	12,402,795
Hire of equipment	2,504,622	2,315,454
Insurance	7,220,428	5,873,091
Inventory expensed	2,830,259	3,015,502
Legal fees	4,168,470	3,310,362
Licensing fees	6,399,722	5,431,599
Loss of inventory	15,799	137,725
Magazines, books and periodicals	177,767	193,999
Materials and supplies	8,241,283	8,937,321
Medical expenses	460,916	311,999
Occupational health and safety	305,829	304,633
Postage and courier	2,540,924	2,308,884
Printing and stationery	3,737,969	3,860,153
Skills development levies	3,718,214	3,311,049
Staff development cost	3,531,986	3,631,174
Staff welfare	306,415	522,281
Subscriptions and membership fees	4,349,222	4,201,373
Telephone and connectivity	4,471,022	4,449,754
Travel and accommodation	15,354,318	13,626,642
Uniforms	3,099,951	2,768,705
Virtual storage	465,858	355,388
Ward committee expenses	2,265,842	3,709,418
Write down of inventory to net realisable value	14,286	5,538,524
	122,423,378	122,357,172
42. Auditors' remuneration		
Fees	4,135,664	4,111,626

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	2017 R	2016 R
43. Cash generated from operations		
Surplus	148,017,086	161,537,168
Adjustments for:		
Depreciation and amortisation	150,879,779	147,734,351
Gain (loss) on sale of assets and liabilities	903,912	(289,806)
Inventory write down	14,826	5,538,524
Impairment deficit	7,031,746	12,978,003
Debt impairment	29,180,141	8,293,281
Interest cost: Actuarial	11,022,703	945,437
Movements in retirement benefit assets and liabilities	(669,663)	10,214,794
Provision - long service	(636,377)	2,024,117
Public donations	(81,838,785)	(61,135,026)
Provision - landfill site and other	4,813,145	1,847,590
Movement in operating lease asset	2,030,832	28,757
Changes in working capital:		
Inventories	4,356,187	3,883,333
Other receivables from exchange transactions	4,827,340	(13,329,754)
Trade receivables from exchange transactions	(15,256,707)	(16,814,072)
Receivables from non-exchange transactions	(20,779,844)	658,990
Payables from exchange transactions	9,953,975	(25,992,011)
VAT	(371,411)	25,222,829
Payables from non-exchange transactions	(4,695,104)	4,465,653
Unspent conditional grants and receipts	(3,318,282)	3,351,698
Consumer deposits	7,371,250	9,934,301
	252,836,949	281,096,157

44. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Community assets	9,804,277	2,106,420
• Infrastructure	42,374,979	62,748,812
• Intangible assets	540,104	-
• Other assets	8,247,478	3,887,931
• Specialised vehicles	1,738,082	8,015,726
• Land and buildings	1,304,092	-
	64,009,012	76,758,889

Total commitments

Total commitments

Authorised capital expenditure	64,009,012	76,758,890
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During the 2015/2016 financial year, misstatements on commitments were identified, therefore, and adjustment has been effected for the correction of the prior year misstatement. The expenditure relate to property plant and equipment which will be funded from internal reserves, cash and borrowings.

This expenditure will be financed from:

Capital replacement reserve	22,353,454	13,235,390
External loans	30,903,143	54,257,982
Government grants	10,752,415	9,265,518
	64,009,012	76,758,890

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	2017 R	2016 R
45. Contingencies		
1. MM Selela on behalf of Phillip Selela - claim in the amount of R175 000 for damages against the municipality for the injury to his child as a result of loose paving.		
2. TAC Wesson - claim in the amount of R100 000 for unlawful arrest in a traffic related incident.		
3. ABSA Technology Finance Solution (Pty) Ltd - claim in the amount of R22 000 as the sum owing at the date of termination of the master rental agreement.		
4. Steven Mahlangu - claim in the amount of R100 000 for the unlawful arrest in a traffic related incident. Matter referred to council's insurance.		
5. HE Scheepers - claim in the amount of R300 000 for unlawful arrest in a traffic related incident. Mr Scheepers' attorney is awaiting outcome of criminal appeal before deciding whether to pursue with the civil claim against the municipality or not. Matter referred to council's insurance.		
6. JB Mahlangu - claim in the amount of R50 000 wherein the fire department vehicle negligently collided with a minibus taxi. Matter referred to council's insurance.		
7. F de Beer - claim in the amount of R13 690 instituted against the municipality for damage caused by a pothole to a motor vehicle on corner Cowen Ntuli and Walter Sisulu Street. Matter referred to council's insurance.		
8. South African Local Authority Pension Fund - claim in the amount of R76 268 being the amount paid to the beneficiary by the fund as a result of the failure by the municipality to timeously submit the claim forms. The matter is defended by council's attorneys.		
9. S van Zyl - claim in the amount of R200 000 for unlawful arrest in a traffic related incident. Matter is referred to council's insurance.		
10. PW Botha and others - claim in the amount of R352 500 for unlawful arrest in a traffic related incident. Matter referred to council's insurance.		
11. S van Vreden - claim in the amount of R1 343 102 for damages, pain and suffering and loss of income due to alleged negligence by the municipality.		
12. Triple E Training holdings (pty) Ltd - claim in the amount of R12 938 for damages for services rendered (Adult Based Education and Training). Matter is defended by council's attorneys.		
13. S Moroamoche - claim in the amount of R72 700 against the municipality for damage to a vehicle in an accident. Matter is defended by council's attorneys.		
14. MB Lehwelene - claim in the amount of R50 000 for damages after the claimant was dismissed at the disciplinary hearing during August 2006. Matter is defended by council's attorneys.		
15. C van Rensburg - claim in the amount of R100 000 for damages after a wheel dislodged from a vehicle which was driven by a council employee on 15 May 2008. Matter is referred to council's insurance.		
16. Zurich Insurance Company on behalf of AN Strydom - claim in the amount of R76 867 against the municipality for damage to a vehicle in an accident. Matter is defended by council's insurers.		
17. B Chego - claim in the amount of R100 000 against the municipality for damage to a vehicle in an accident. Matter is defended by council's insurers.		
18. CJ du Bruyn on behalf of V du Bruyn (minor) - claim in the amount of R250 273 against the municipality for negligence. Matter defended by council's insurers.		
19. PB Siziba on behalf of PM Siziba (minor) - claim in the amount of R505 000 against the municipality for negligence. Matter is defended by council's insurers.		

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	2017 R	2016 R
45. Contingencies (continued)		
20. AF Talane - claim in the amount of R50 000 against the municipality for unlawful arrest. Matter is defended by council's insurers.		
21. EB Mahlangu - claim in the amount of R50 000 against the municipality for unlawful arrest. Matter is defended by council's insurers.		
22. MP Kunneke - claim in the amount of R1 000 000 against the municipality for negligence. Matter is defended by council's insurers.		
23. D Coetzee - claim in the amount of R250 000 against the municipality for unlawful arrest. Letter of demand referred to council's insurance.		
24. JNH Grobler - claim in the amount of R430,518 against the municipality for unlawful arrest and damage to vehicle. Matter referred to council's insurers.		
25. JM Ravele - claim in the amount of R89 508 against the municipality for negligence of failure to exercise due care towards the plaintiff. Matter referred to council's insurers.		
26. NL Mogashoa - claim in the amount of R14 285 against the municipality for damage to vehicle as a result of collision with municipal vehicle. Matter referred to council's insurers.		
27. E Booysen - claim in the amount of R1 000 000 against the municipality for negligence due to failure to put up a cul-de-sac sign.		
28. Nashua Mobile - claim in the amount of R132 481 for non-payment of invoice due to dispute on possible fraud. Matter is referred to council's attorneys.		
29. Federale Stene - claim in the amount of R5 691 064 against the municipality for failure to rehabilitate the landfill site. Matter is defended by council's attorneys.		
30. GM van Vuuren - claim in the amount of R2 150 for damages to motorcycle caused by broken glass left on the street. Matter referred to council's insurer.		
31. Ms N Nkosi - claim in the amount of R73 750 for damages to property caused by a burst water pipe. Matter referred to council's insurer.		
32. Mr R Sindane - claim in the amount of R20 000 for damages to property caused by a burst water pipe. Matter referred to council's insurer.		
33. Ms M Hlatshwayo - claim in the amount of R20 000 for damages to property caused by a burst water pipe. Matter referred to council's insurer.		
34. Ms DS Mphahlele - claim for damages to property caused by storm water. Matter referred to council's insurance. The amount is yet to be determined.		
35. Mrs EQ Mohoto - claim in the amount of R6 000 against the municipality for injuries sustained after the third party fell in a hole while walking on a sidewalk. Matter is referred to council's insurance.		
36. Mr RL Modishane - claim in the amount of R6 005 against the municipality for damages to electronic equipment caused by a power surge. Matter is referred to council's insurance.		
37. Mr KM Skosana - claim in the amount of R200 000 against the municipality for being assaulted by the municipality's traffic officers. Matter is referred to council's insurance.		
38. Telkom - claim in the amount of R30 050 against the municipality for damages caused to 12 fibre optic cables near Hendrina power station. Matter referred to council's insurance.		
39. Mr M Mathunyane - claim in the amount of R19 904 against the municipality for damages caused to his vehicle after colliding with a vehicle belonging to the municipality. Matter referred to council's insurance.		

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	2017 R	2016 R
45. Contingencies (continued)		
40. Mr MJ Letsoalo – claim in the amount of R50 822 against the municipality for damages to property caused by a burst water pipe. Matter referred to council's insurance.		
41. Mr FJ Venter – claim in the amount of R20 006 against the municipality for damages to his vehicle after colliding with a vehicle belonging to the municipality. Matter is referred to council's insurance.		
42. PW Saayman – claim in the amount of R5 023 against the municipality for the loss of a JoJo tank after it got burnt in a veldfire started by the municipality's fire fighters. Matter is referred to council's insurance.		
43. Telkom SA SOC Ltd – claim in the amount of R21 532 against the municipality for damages caused to a Telkom manhole. Matter is referred to council's insurance.		
44. NS Archer – claim in the amount of R2 148 against the municipality for food that got spoiled as a result of a 2 day long power outage. Matter is referred to council's insurance.		
45. FK Mahlangu – claim in the amount of R4 104 against the municipality for injuries sustained and loss of his phone after falling into a hole on the sidewalk at Mankge Street. Matter is referred to council's insurance.		
46. A Ntamele – claim in the amount of R400 000 against the municipality for being shot by a traffic officer for no reason. Matter referred to council's insurance.		
47. AP Samasuwo – claim in the amount of R400 000 against the municipality for being shot by a traffic officer for no reason. Matter referred to council's insurance.		
48. DJ Swanepoel end Associates (on behalf of Du Plessis) HBN 893 MP – claim in the amount of R14 229 against the municipality for damages caused to the third party vehicle after colliding with a vehicle belonging to the municipality. Matter referred to council's insurance..		
49. TJ van Dyk – claim in the amount of R70 000 for unlawful arrest. Matter referred to council's insurance.		
50. MP Naidoo – claim in the amount of R9 785 for damages to vehicle caused by pothole. Matter is referred to council's insurance.		
51. EJ Joubert – claim in the amount of R780 098 for damages to third party vehicle caused by a pothole. Matter referred to council's insurance.		
52. MG de Koker – claim in the amount of R16 500 for injury as a result of falling into a manhole. Matter referred to council's insurance.		
53. MP Mahlangu – claim against the municipality for emotional shock caused from the wrongful arrest and assault of his father. The amount is yet to be determined. Matter referred to council's insurance.		
54. KJ Mahlangu – claim against the municipality for unlawful arrest, assault, detention and prosecution. Amount is yet to be determined. Matter referred to council's insurance.		
55. Alveston Manor guesthouse – claim in the amount of R4 592 against the municipality in respect of accommodation provided. Matter referred to council's insurance.		
56. L Naidoo – claim in the amount of R4 563 against the municipality for damages caused to third party's vehicle by a speed hump. Matter is referred to council's insurance.		
57. MX Masango – claim against the municipality for injuries sustained from playground equipment. Amount is yet to be determined. Matter referred to council's insurance.		
58. S Mokwana – claim in the amount of R100 000 against the municipality for wrongful arrest and assault of a third party. Matter referred to council's insurance.		
59. MP Mahlangu – claim against the municipality for misallocation of land. Amount is yet to be determined. Matter referred to council's insurance.		
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	2017 R	2016 R
45. Contingencies (continued)		
60. MM Eyssell – claim against the municipality for damages caused to property as a result of the blasting activity at Shanduka Graspan Colliery. Amount is yet to be determined. Matter referred to council's insurance.		
61. Mr CH van Dyk – claim in the amount of R73 376 against the municipality for damages caused to his vehicle after colliding with a vehicle belonging to the municipality. Matter referred to council's insurance.		
62. Mrs L Mahlangu – claim against the municipality for damages to her vehicle after colliding with a pothole. Amount is yet to be determined. Matter referred to council's insurance.		
63. Mr T Ngwenya – claim in the amount of R65 001 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.		
64. Elusindisweni Primary School – claim against the municipality for damage to property caused by the municipality's vehicle that drove through it. Amount is yet to be determined. Matter referred to council's insurance.		
65. Mrs Blignaut – claim in the amount of R14 931 against the municipality for damages caused to third party vehicle after colliding with a pothole. Matter is referred to council's insurance.		
66. Mr R Ramothibe – claim against the municipality for damages caused to property by a water pipe that burst. Amount is yet to be determined. Matter referred to council's insurance.		
67. Mrs S Mzotho – claim against the municipality for damage to electronic appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
68. M Maele – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
69. L Mosiane – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
70. M Sekhuto – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
71. Masilela and Mdluli – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined.		
72. TM Mpila – claim against the municipality for damage to electrical appliances caused by a surge in power. Amount is yet to be determined. Matter referred to council's insurance.		
73. Mrs BK Mabuza – claim in the amount of R9 400 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.		
74. Telkom Soc Ltd – claim in the amount of R7 591 against the municipality for damage caused to fibre optic cables. Matter referred to council's insurance.		
75. Mr A Mathebula – claim against the municipality in the amount of R800 000 against the municipality for being assaulted by traffic officers. Matters referred to council's insurance.		
76. Camm Trans – claim against the municipality for loss of income. Amount is yet to be determined. Matter referred to council's insurance.		
77. S Sibanyoni – claim against the municipality for damage to property caused by a water pipe that burst. Amount is yet to be determined. Matter referred to council's insurance.		
78. Ekwazini Secondary School – claim against the municipality for damage to property caused by municipal employees. Amount is yet to be determined. Matter referred to council's insurance.		
79. Mr P Maseko – claim in the amount of R1 000 for food that got spoilt as a result of a power outage. Matter referred to council's insurance.		

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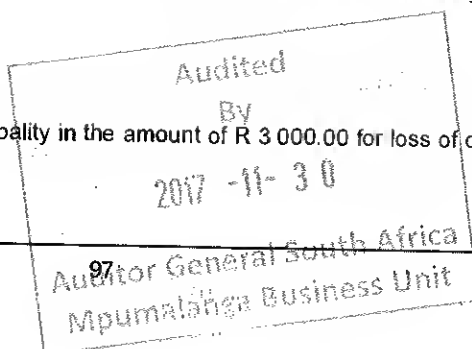
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	2017 R	2016 R
45. Contingencies (continued)		
80. Mr D Khumalo – claim in the amount of R13 493 against the municipality for damages caused to third party vehicle after colliding with a pothole. Matter referred to council's insurance.		
81. Mrs B Nkwana – claim against the municipality for injuries suffered after the third party fell on a sidewalk. Amount is yet to be determined. Matter referred to council's insurance.		
82. Mrs L Skosana – claim against the municipality for damages caused to third party vehicle after colliding with pothole. Amount is yet to be determined. Matter referred to council's insurance.		
83. Mrs BS McPherson – claim against the municipality for damage caused to electrical appliances by a power outage. Amount is yet to be determined. Matter referred to council's insurance.		
84. Mrs SL Maseko – claim against the municipality for damage to property caused by a water pipe that burst. Amount is yet to be determined. Matter referred to council's insurance.		
85. AC Raynard – claim in the amount of R4 788 against the municipality for clearing a manhole that was blocked. Matter referred to council's insurance.		
86. Midhend Investment CC – claim in the amount of R15 000 against the municipality for demolition of the third party's structure. Matter referred to council's insurance.		
87. KJ Thubane – claim in the amount of R3 343 against the municipality for damages to vehicle after colliding with a rock on the road. Matter referred to council's insurance.		
88. Ned Consortium – claim in the amount of R154 389 against the municipality for the illegal termination of a contract. Matter referred to council's insurance.		
89. NC (Pty) Ltd – claim in the amount of R6 326 against the municipality for missing stock.		
90. Mrs E Moagi – claim in the amount of R18 169 against the municipality for demolition of third party structure.		
91. Mr and Mrs Vilane – claim in the amount of R81 754 against the municipality for damages of property caused by a water pipe that burst.		
92. Mr and Mrs Letsoalo – claim in the amount of R102 254 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.		
93. SJ Mollentze – claim in the amount of R510 000 against the municipality for injuries sustained after a tree stump fell on her. Matter referred to council's insurance.		
94. NS Mahlangu – claim in the amount of R46 500 against the municipality for damage to property caused by a water pipe that burst. Matter referred to council's insurance.		
95. ZL Maseko – claim against the municipality for damage to property caused by an electrical pole that fell on her house. Amount is yet to be determined. Matter referred to council's insurance.		
96. K Mabhoko – claim in the amount of R200 000 against the municipality for assault by traffic officers. Matter referred to council's insurance.		
97. C Thela – claim against the municipality for damage to vehicle caused by a pothole. Amount is yet to be determined. Matter referred to council's insurance.		

98. A. N Maseko – this is a claim against the municipality in the amount of R 3 000.00 for loss of cell phone after falling into a hole.



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	2017 R	2016 R
45. Contingencies (continued)		
99. B.J Van Der Merwe – this is a claim against the municipality in the amount of R 980.00 for damage to vehicle caused by a pothole.		
100. B Makhoba – this is a claim against the municipality in the amount of R 17 595.80 for damages to electrical appliances.		
101. B Lummis – this is a claim against the municipality in the amount of R 15 518.50 for damage to vehicle caused by a pothole.		
102. C.A Mphahlaza – this is a claim against the municipality for damages to property caused by a power cut. Amount is yet to be determined.		
103. C. Badenhorst – this is a claim against the municipality in the amount of R 200 000 for wrongful arrest.		
104. C. Gatzonis – this is a claim against the municipality for injuries suffered after slipping and falling on the sidewalk.		
105. C. Olivier – this is a claim against the municipality in the amount of R 4 481.67 for damages to vehicle after colliding with Council's vehicle.		
106. Everest Funerals – this is a claim against the municipality in the amount of R 4 450.00 for damages to vehicle after colliding with Council's vehicle.		
107. Extension 8 residents – this is a claim against the municipality for damage to electrical appliances caused by a surge in power. The amount of the claim is yet to be determined.		
108. F. Muklwe – this is a claim against the municipality in the amount of R 100 000.00 for unlawful demolition of structure.		
109. S. Simelane – this is a claim against the municipality in the amount of R 11 105.56 for damage to vehicle after colliding with a pothole.		
110. H. Mabuza – this is a claim against the municipality in the amount of R 16 999.00 for damage to electrical appliances caused by a surge in power		
111. J.G Lubbe - this is a claim against the municipality in the amount of R 8 999.00 for damage to electrical appliances caused by a surge in power.		
112. J.L Phokane – this is a claim against the municipality for a damaged boundary wall.		
113. L Marcus – this is a claim against the municipality for damage to vehicle caused by a pothole.		
114. L. Davis – this is a claim against the municipality in the amount of R 3 000.00 for damages to vehicle caused by a pothole.		
115. L. Kriel – this is a claim against the municipality in the amount of R 6 790.00 for damaged gate motor.		
116. M M. Mndawe – this is a claim against the municipality for damaged electrical appliances.		
117. M. Tshoma – this is a claim against the municipality for damage to property caused by a water pipe that burst.		
118. Mayivuthe – this is a claim against the municipality in the amount of R 719 322.75 for a damaged surge arrestor machine.		
119. N.S Smit – this is a claim against the municipality for damage to a vehicle by a pothole.		
120. N.J Potgieter – this is a claim against the municipality in the amount of R 396 500.00 for assault by traffic officials.		
121. P.P Mahlangu – this is a claim against the municipality for damage to property caused by a burst pipe.		
122. S. Sibanyoni – this is a claim against the municipality for damage to property caused by a burst pipe.		
123. T.S Nkosi – this is a claim against the municipality for a house that burnt down as a result of an electricity box that exploded.		

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	2017 R	2016 R
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45. Contingencies (continued)

124. T. Vilakazi – this is a claim in the amount of R 29 706.84 for damages to a vehicle after colliding with Council's vehicle.

125. Middelburg Power Supplies - this is a claim against the municipality in the amount of R 657 540.66 for unpaid invoices.

46. Related parties

Relationships

Councillors

Key management

Refer to note 33

Refer to note 32

47. Prior period errors

The prior year has been amended to account for prior period errors.

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Statement of financial performance	Balance as previously reported	Prior period error	Reclassified (note 49)	Total
Revenue				
Property rates	308,610,464	-	(17,568,097)	291,042,367
Service charges	728,751,091	-	(48,669,392)	680,081,699
Interest received - investments	39,770,333	789,252	-	40,559,585
Government grants and subsidies	183,431,892	(987,039)	-	182,444,853
Public contributions and donations	60,973,026	162,000	-	81,135,026
Other income	33,761,383	(271,934)	-	33,489,449
	1,355,298,189	(307,721)	(66,237,489)	1,288,752,979
Expenses				
Depreciation and amortisation	(146,172,103)	(1,562,247)	-	(147,734,350)
Finance cost	(8,391,097)	(945,437)	-	(9,338,534)
Contributions to provisions	(21,460,536)	3,787,334	-	(17,673,202)
General expenses	(122,356,416)	(756)	-	(122,357,172)
Grants and subsidies paid	(71,439,309)	-	66,237,489	(5,201,820)
	(369,819,461)	1,278,894	66,237,489	(302,303,078)
Statement of financial position				
Current assets				
Inventory	169,156,738	518,542	-	169,675,280
Receivables from exchange transactions	25,604,902	488,912	-	26,093,814
	194,761,640	1,007,454	-	195,769,094
Non-current assets				
Investment property	25,941,390	9,523	-	25,950,913
Property, plant and equipment	6,033,148,460	14,846,545	-	6,047,995,005
	6,059,089,850	14,656,068	-	6,073,745,918
Current liabilities				
Payables from exchange transactions	(158,825,855)	419,090	-	(158,406,765)

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		2017 R	2016 R
47. Prior period errors (continued)			
Net assets			
Accumulated surplus - opening balance	(6,301,595,045) (15,111,439)	-	(6,316,706,484)
1. Receivable from exchange not accrued			
Interest received for June 2016 on primary back account not accrued in prior period.			
Statement of financial position			
Increase in receivables from exchange transactions		-	789,252
Statement of financial performance			
Increase in interest received investments		-	(789,252)
2. Land not previously recognised			
Land which was not previously recognised in prior periods (prior 2015) has been taken up as investment property in the current year.			
Statement of financial position			
Increase in investment property		-	9,523
Increase in accumulated surplus		-	(9,523)
3. Work in progress incorrectly recognised			
Donation received from human settlement incorrectly recognised as work in progress in prior periods..			
Statement of financial position			
Decrease in property, plant and equipment		-	(987,039)
Statement of financial performance			
Decrease in government grants and subsidies		-	987,039
4. Correction of land value			
Incorrect value was taken up for donated land in the prior periods.			
Statement of financial position			
Increase in property, plant and equipment		-	162,000
Statement of financial performance			
Increase in public contributions and donations		-	(162,000)
5. Correction of accumulated depreciation			
Depreciation of Boskrans incorrectly calculated in the prior period.			
Statement of financial position			
Increase in accumulated depreciation		-	(275,478)
Statement of financial performance			
Increase in depreciation		-	275,478

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	2017 R	2016 R
47. Prior period errors (continued)		
6. Inventory not disposed		
Correction of inventory which should have been disposed in prior period. Incorrect portion of land disposed		
Statement of financial position		
Decrease in inventory	-	(96,164)
Decrease in accumulated surplus	-	96,164
	<u>-</u>	<u>-</u>
7. Inventory incorrectly expensed		
Correction of inventory incorrectly disposed in prior years(incorrect portion of land disposed).		
Statement of financial position		
Increase in inventory	-	614,706
Increase In accumulated surplus	-	(614,706)
	<u>-</u>	<u>-</u>
Statement of financial performance		
Increase in general expenditure	-	756
	<u>-</u>	<u>-</u>
8. Payables from exchange incorrectly accrued		
Correction of payables from exchange transactions incorrectly accrued in prior years (prior 2015) for Department of Water Affairs and membership levies.		
Statement of financial position		
Decrease in payables from exchange transactions	-	662,022
Increase in accumulated surplus	-	(662,022)
	<u>-</u>	<u>-</u>
9. Land Incorrectly disposed		
Correction of land which was incorrectly disposed off in prior years (prior 2015).		
Statement of financial position		
Increase in property, plant and equipment	-	37,469
Increase in accumulated surplus	-	(37,469)
	<u>-</u>	<u>-</u>
10. Payable from exchange not accrued		
Correction of main service contribution in prior period not accrued.		
Statement of financial position		
Increase in payable from exchange transactions	-	(242,935)

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Notes to the Annual Financial Statements

	2017 R	2016 R
47. Prior period errors (continued)		
Statement of financial performance		
Decrease in other income	-	242,935
11. Receivable from exchange incorrectly accrued		
Correction of insurance debtors incorrectly accrued for prior period.		
Statement of financial position		
Decrease in receivables from exchange transactions	-	(300,340)
Decrease in accumulated surplus	-	271,341
	-	(28,999)
Statement of financial performance		
Decrease in other income	-	28,999
12. Reclassification of free basic services		
Reclassification of free basic services previously classified as free basic services. Reclassification of free basic services previously classified as free basic services.		
Statement of financial performance		
Decrease in property rates	-	17,568,097
Decrease in service charges	-	48,669,392
Decrease in grants and subsidies paid	-	(66,237,489)
	-	-
	1	-
13. Landfill site rehabilitation		
Correction of recognition of landfill site rehabilitation as property, plant and equipment and recognition of interest cost.		
Statement of financial position		
Increase in property, plant and equipment	-	15,709,594
Increase in accumulated surplus	-	(15,709,594)
	-	-
Statement of financial performance		
Increase in finance cost	-	945,437
Decrease in provisions	-	(3,787,334)
Increase in depreciation	-	1,286,769
	-	(1,555,128)

14. Correction of previous duplicated and incorrectly recognised property, plant and equipment

48. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are set out in note 47.

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	2017 R	2016 R
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49. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (cash flow interest rate risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At June 30, 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term liabilities	11,442,540	12,647,558	30,873,847	11,801,950
Payables from non-exchange transactions	843,708	139,415	214,409	903,874
Payables from exchange transactions	111,859,274	749,156	55,758,305	-
At June 30, 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term liabilities	10,334,263	11,442,540	32,269,097	23,054,258
Payables from non-exchange transactions	5,351,354	139,415	214,409	1,091,332
Payables from exchange transactions	106,815,237	1,522,810	50,487,801	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2017	2016
Cash and cash equivalents	83,901,579	80,463,242
Trade receivables from exchange transactions	78,207,626	73,504,781
Investments	482,000,000	485,000,000
Long term receivables	37,657	62,927
Other receivables from exchange transactions	28,835,511	26,093,814
Receivables from non-exchange transactions	5,709,384	11,125,056

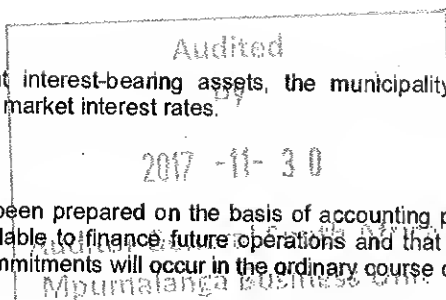
Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

50. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.



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	2017 R	2016 R
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50. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

51. Events after the reporting date

No events after reporting date occurred which requires disclosure.

52. Unauthorised expenditure

Community and public safety	1,415,381	-
Executive and council	-	9,442,663
	<u>1,415,381</u>	<u>9,442,663</u>

The above unauthorised expenditure within the votes is as a result of year-end provision for bad debts, impairment for traffic fines. This unauthorised expenditure will be tabled in a special adjustment budget when the annual report is tabled in accordance with section 23(6) of the Budget and Reporting Regulations. Despite the overspending on the above votes, the total approved expenditure did not overspend.

53. Fruitless and wasteful expenditure

Opening balances	140,881	140,081
Additions	-	800
	<u>140,881</u>	<u>140,881</u>

54. Irregular expenditure

Opening balance	33,402,095	-
Add: Irregular Expenditure - current year	17,701,614	18,452,467
Add: Irregular Expenditure - previous year	-	14,949,628
	<u>51,103,709</u>	<u>33,402,095</u>

Analysis of expenditure awaiting condonation per age classification

Current year	-	17,701,614
2016	-	18,452,467
2015	-	14,949,628
	<u>-</u>	<u>51,103,709</u>

Details of irregular expenditure – current year

Rand water	Non compliance with SCM policy by Rand water	2,175,498
Altimax (Pty) Ltd	Invalid reason for deviations	1,599,736
Tswellopele Plants CC	Invalid reason for deviation	1,712,337
Born to Protect Securivics	Invalid reason for deviation	3,752,350
Pridi Security Services	Invalid reason for deviation	62,040
Aeurocon	Invalid reason for deviation	650,940
Down Low Construction	Invalid reason for deviation	158,400
CT Lab	Invalid reason for deviation	122,835
Tswellopele Plants CC	Invalid reason for deviation	1,128,486
Matyane Civils	Invalid reason for deviation	3,001,175
Mafeta Napogadi Trading Jv	Invalid reason for deviation	3,337,817
		<u>17,701,614</u>

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	2017 R	2016 R
55. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to SALGA		
Membership fees payable	4,267,547	4,125,090
Amount paid - current year	(4,267,547)	(4,125,090)
	-	-
Audit fees		
Current year fee	4,135,664	4,959,307
Amount paid - current year	(4,135,664)	(4,959,307)
	-	-
PAYE and UIF		
Current year payroll deduction (PAYE)	56,369,275	48,202,527
Current year payroll deduction (UIF)	4,742,582	4,272,904
Amount paid - current year (PAYE)	(56,369,275)	(48,202,527)
Amount paid - current year (UIF)	(4,742,582)	(4,272,904)
	-	-
Pension and medical aid deductions		
Current year payroll deduction (medical aid)	37,044,059	32,132,058
Current year payroll deduction (pension fund)	65,647,529	59,523,904
Amount paid - current year (medical aid)	(37,044,059)	(32,132,058)
Amount paid - current year (pension fund)	(65,647,529)	(59,523,904)
	-	-
VAT		
VAT receivable	6,441,569	6,070,158

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at 30 June 2017 and 30 June 2016:

June 30, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
None	-	-	-
June 30, 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr O Malinga - Account 34-2195-1X	931	4,378	5,309
Cllr MN Mathibela - Account 21-0093-7X	-	3,439	3,439
Cllr PP Tau - Account 89-2480-3X	-	5,497	5,497
	931	13,314	14,245
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	2017 R	2016 R
55. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Supply chain management regulations		
In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.		
Paragraph 45(a),(b) &(c) of Government Gazette No. 27636 issued on 30 May 2005 states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months.		
Ekleto Live Life Love Water - daughter works for the municipality	-	62,048
Payatl Business Enterprise	-	41,496
Tenemo General Dealer - sister works for the Department of Health	-	32,450
Tsoga Moteo Trading and Projects - wife works for the Sekhukhune District Municipality	247,287	19,271
Mamphela Waste Management (Pty) Ltd - father works for the municipality	389,194	476,979
MBG Auto Body Panelbeter - father works for the municipality	-	1,761
Sivest (Pty) Ltd - wife works for City of Cape Town	-	36,363
SMEC South Africa (Pty) Ltd - wife works for Provincial Government	-	89,285
Lefase la Rona Trading and Projects 416 - wife is a teacher	45,345	-
Altimax Chartered Accountants Inc.	42,100	-
Middelburg Auto Body Panelbeater	25,581	-
	749,507	759,653

56. Budget differences

Material differences between budget and actual amounts

A variance of 10% of more or a variance of (10%) or less is considered to be a material variance.

Reasons for material differences between actual and budget figures are explained below:

1. Rental of facilities - new agreement for surface rental resulted in a lessor rental amount received of R2.3 million.
2. Interest received - investment - R16.1 million more interest realised due to favourable cash position and increase in prime rate.
2. Interest received - trading - R0.3 million more interest received due to increase in outstanding debtors accounts and increase of prime rate.
3. Fines, penalties and forfeits - R6.7 million more revenue accrued from traffic fines based on the actual fines issued.
5. Other revenue - R46 million less revenue received for the sale of erven which did not realised as planned.
6. Debt impairment - an additional provision was made to the debt impairment provision for traffic fines amounting to 12.5 million.
7. Finance charges - No new external loan taken up, resulting that planned finance charges did not realised.
8. Income from agency services - R4-million more revenue recieved from agency services as a result of more licence fees payable to provonce.
9. Public Contributions and donations - Additional assest were transferred from the Nkagala District Municipality than planned in the budget.

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	2017 R	2016 R
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56. Budget differences (continued)

10. Other expenditure

Included in other expenditure is repairs and maintenance, collection costs which was not separately budgeted for.

Less expenditure realised on repairs and maintenance for grass cutting, refuse removal and electricity networks to the amount 13.6 million.

Employee stated benefits was reclassified to employee related costs resulting in a saving of R4.9million.

Lesser expenditure realised on consultancy fees to the amount of R4.2 million.

Due to fluctuation of fuel prices less expenditure realised to the amount R1.4 million.

The planned Eskom connection fee of R6.2 million did not realise.

Lesser inventory on land was expensed to the amount of R19.8 million as a result of stands not alienated.

Spluma was not fully implemented resulting in a saving of R1.2 million.

General savings on materials and supplies realised to the amount of R6.1 million.

Some contracted services did not realized such as Vat recovery fees and savings on other services for example garden refuse.

57. Deviation from supply chain management regulations

Class

Emergency

Sole suppliers

Impractical or impossible to follow the process

Special works of art

28,621,747	14,686,803
10,013,671	6,689,478
22,576,745	31,830,509
147,806	473,223
<u>61,359,769</u>	<u>53,680,013</u>

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

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